

# Provider Agency Audit Guide

*A joint policy of the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections*

## Forward

The Wisconsin Departments of Health and Family Services, Corrections, and Workforce Development are pleased to release this major revision to the *Provider Agency Audit Guide*, which establishes the audit requirements for agencies which receive funding from these departments, whether directly or indirectly. This shared document reflects commitment from the three departments to have consistent audit and financial management policies for agencies that receive their funding.

The new *Guide* offers granting agencies far more latitude in deciding whether to require their providers to have audits, and if so, what kind of audits to require. The previous *Guide* required an agency-wide financial statement audit with certain general compliance requirements. The new *Guide* also requires an agency-wide audit with certain additional testing as the default audit. However, the new *Guide* makes a significant departure from the previous one-size-fits-all audit requirement with its risk-based approach that granting agencies can use to match audit requirements to an assessed level of risk.

The ideas reflected in this revision came from the people who use the *Guide*. Suggestions for additional ways to improve the *Guide* are welcome.

# Table of Contents

<i>Forward</i> .....	<i>ii</i>
<i>Table of Contents</i> .....	<i>iii</i>
<b>1 Introduction</b> .....	<b>1-1</b>
<b>1.1 Applicability of the Guide</b> .....	<b>1-2</b>
<b>1.2 Situations where the Guide is not appropriate</b> .....	<b>1-2</b>
<b>1.3 Overview of the Guide</b> .....	<b>1-2</b>
<b>1.4 Effective date of the Guide</b> .....	<b>1-3</b>
<b>1.5 Updates to the Guide</b> .....	<b>1-3</b>
<b>1.6 Reference to the Guide in audit reports</b> .....	<b>1-4</b>
<b>1.7 The Guide and OMB Circular A-133</b> .....	<b>1-4</b>
<b>1.8 The Guide and allowable cost requirements</b> .....	<b>1-4</b>
<b>2 Identifying and assessing risks</b> .....	<b>2-1</b>
<b>2.1 Risks associated with a particular program</b> .....	<b>2-3</b>
2.1.1 Lifestage of the program.....	2-3
2.1.2 Complexity of the program.....	2-3
2.1.3 “Sensitivity” of the program .....	2-3
2.1.4 Who decides eligibility for the program .....	2-3
2.1.5 Who decides amount or type of service from the program.....	2-3
2.1.6 Payment method.....	2-4
2.1.7 Competition .....	2-5
<b>2.2 Risks associated with a particular provider</b> .....	<b>2-7</b>
2.2.1 Provider’s total funding from the department .....	2-7
2.2.2 Length of time the provider has been in business .....	2-7
2.2.3 Provider’s experience and past performance .....	2-8
2.2.4 Provider’s financial health and practices .....	2-8
2.2.5 Provider’s compliance and internal controls .....	2-8
2.2.6 Provider’s fiduciary responsibilities .....	2-8
2.2.7 Provider’s subcontracting .....	2-8
<b>2.3 Risks associated with the granting agency</b> .....	<b>2-9</b>
2.3.1 Granting agency’s experience with the provider agency.....	2-9
2.3.2 Granting agency’s experience with the program .....	2-9
2.3.3 Granting agency’s monitoring methods .....	2-9
<b>3 Selecting the type of audit</b> .....	<b>3-1</b>
<b>3.1 Selecting the audit requirement</b> .....	<b>3-1</b>
3.1.1 Risk.....	3-1
3.1.2 Federal audit requirements .....	3-2
3.1.3 Prohibition on charging some audit costs to federal grants.....	3-3
3.1.4 Cost/benefit.....	3-3
3.1.5 Need for audited information.....	3-4
3.1.6 Recap on type of audit .....	3-4

3.2	Waiving the audit .....	3-5
3.3	Preparing the contract.....	3-6
3.4	Documenting the audit decision process .....	3-7
4	<i>Types of audits</i> .....	4-1
4.1	Agreed-Upon Procedures .....	4-3
4.2	Program Audit.....	4-4
4.3	Agency-Wide Audit .....	4-5
5	<i>Compliance requirements</i> .....	5-1
5.1	Activities allowed and unallowed.....	5-3
5.1.1	Compliance.....	5-3
5.1.2	Internal control .....	5-4
5.2	Allowable costs .....	5-6
5.2.1	Compliance.....	5-6
5.2.2	Internal control .....	5-8
5.3	Eligibility .....	5-11
5.3.1	Compliance.....	5-11
5.3.2	Internal control .....	5-12
5.4	Matching, level of effort, and earmarking .....	5-14
5.4.1	Compliance.....	5-14
5.4.2	Internal control .....	5-16
5.5	Reporting.....	5-19
5.5.1	Compliance.....	5-19
5.5.2	Internal control .....	5-20
6	<i>Fraud</i> .....	6-1
6.1	Definition of fraud .....	6-1
6.2	Management's responsibility .....	6-1
6.3	Auditor's responsibility .....	6-1
6.3.1	Reasonable assurance and materiality.....	6-2
6.3.2	Fraud risk factors .....	6-2
6.3.3	Audit procedures .....	6-3
6.4	Reporting fraud to management.....	6-4
6.5	Reporting fraud to granting agency .....	6-4
6.5.1	The provider's reporting responsibilities.....	6-4
6.5.2	The auditor's reporting responsibilities.....	6-4
7	<i>The audit report</i> .....	7-1
7.1	Report elements prepared by the provider .....	7-3
7.1.1	Financial Statements of the Overall Agency .....	7-4
7.1.2	Schedule of Prior Year Findings .....	7-5
7.1.3	Corrective Action Plan .....	7-6
7.1.4	Schedule of Expenditures of Federal and State Awards.....	7-7
7.1.5	Incorporated Group Home/Child Caring Institution Supplemental Schedule.....	7-11
7.1.6	Reserve Supplemental Schedule .....	7-15
7.1.7	Other Supplemental Schedules Required by Granting Agencies.....	7-19

<b>7.2 Report elements prepared by the auditor.....</b>	<b>7-20</b>
7.2.1 Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards .....	7-21
7.2.2 Opinion on the Financial Statement of a Program in Accordance with the Program Audit7-23	
7.2.3 Report on the Results of an Agreed-Upon Procedures Engagement .....	7-25
7.2.4 Report on Compliance with Requirements Applicable to the Program and on Internal Control Over Compliance in Performed in Accordance with the Program Audit .....	7-26
7.2.5 Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> and the <i>Provider Agency Audit Guide</i> .....	7-28
7.2.6 Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 .....	7-31
7.2.7 The Schedule of Findings and Questioned Costs.....	7-33
<b>8 Audit report submission .....</b>	<b>8-1</b>
8.1 Complete audit report .....	8-1
8.2 Letter notification.....	8-1
8.3 Extension of audit deadline.....	8-2
8.4 Sanctions.....	8-2
<b>9 Audit quality.....</b>	<b>9-1</b>
9.1 The provider and audit procurement .....	9-1
9.2 The auditor and audit standards .....	9-1
9.3 The granting agency and review of the audit work .....	9-2
<b>10 Appendices .....</b>	<b>10-1</b>
10.1 How to contact the department .....	10-1
10.2 Statutory audit requirements.....	10-1
10.3 Distinguishing between a vendor and a subrecipient.....	10-1
10.3.1 A-133's criteria for vendor and subrecipient.....	10-1
10.3.2 GH/CCI's are vendors .....	10-2
10.4 Reviewing the audit report and resolving audit issues .....	10-3
<b>11 Definitions/Index .....</b>	<b>11-1</b>

# Provider Agency Audit Guide

*A joint policy of the Departments of Health and Family  
Services, Workforce Development, and Corrections*

## 1 Introduction

[Providers](#) who receive [department funding](#) are responsible for complying with the federal and state “strings” associated with the funding. This responsibility includes having an audit when the [granting agency](#) requires one. It also includes monitoring sub-awards of department funds that a provider might make to other providers, which may include requiring audits of providers who receive the sub-awards.

An audit provides:

- Independent assessment of the provider’s financial condition (agency-wide audit only) and the provider’s administration of the department’s programs.
- Opportunity for the provider to improve operations by implementing the auditor’s recommendations.
- Audited cost or performance information to support program activities or decisions. (for example, the Department of Health and Family Services uses information in audit reports for group homes and child caring institutions ([Section 7.1.5](#)) to support claims for federal funding.)

The *Provider Agency Audit Guide* establishes the department’s expectations for audits involving its funding. For the purposes of the *Guide*, the department has defined “audit” as including [agreed-upon procedures](#), [program audits](#), and [agency-wide audits](#) when these engagements are performed in accordance with the *Guide*.

The granting agency decides what type of audit to require. All providers who receive department funding in excess of the statutory threshold ([Section 10.2](#)) need to have an agency-wide audit unless the granting agency chooses to use the risk-based approach described in this *Guide* to waive the audit or to require a lessor-scoped audit.

Although the focus of the *Guide* is on audits, audits cannot replace other kinds of monitoring. Audits do not tell the granting agency about the quality or appropriateness of the provider’s care and services. Audits, by their nature, do not provide complete assurance that funds are being administered appropriately. Finally, a granting agency will typically receive the provider’s audit report 18 months after the beginning of the contract, which means significant problems will be unaddressed throughout that time if the granting agency were to rely just on the audit to monitor the contract. Granting agencies need to perform other monitoring throughout the contract in order to ensure that funds are administered appropriately.

## 1.1 Applicability of the Guide

The statutes establishing the responsibility to have an audit when an agency received department funding ([Section 10.2](#)) indicate that the audit shall follow the department's standards. These standards are:

- The [State Single Audit Guidelines](#) for audits of local governments that have audits in accordance with [OMB Circular A-133](#) "Audits of States, Local Governments, and Non-Profit Organizations." The *State Single Audit Guidelines* extend the single audit under A-133 to also include state programs.
- The *Provider Agency Audit Guide* for all other providers, including
  - Non-profit organizations, whether or not they also need to have audits in accordance with OMB Circular A-133,
  - For-profit organizations, and
  - Local governments that do not need to have audits in accordance with OMB Circular A-133.

Some other departments require that the *State Single Audit Guidelines* be used for non-profit organizations that receive funding from those departments. Also, in the past, the department has accepted the audits performed in accordance with the *State Single Audit Guidelines* when they should have been in accordance with the *Provider Agency Audit Guide* because the audit work was essentially the same or greater under the *State Single Audit Guidelines*. The *Provider Agency Audit Guide* now requires program level testing for the department's programs, and this requirement is applied differently than the major program requirement in the *State Single Audit Guidelines*. In some cases, this difference would result in less testing for issues specifically related to the department's programs under the *State Single Audit Guidelines* than would be required under the *Provider Agency Audit Guide*. Therefore, audits involving department funding must be in accordance with the *Provider Agency Audit Guide*, unless the provider is a local government which is having an audit in accordance with OMB Circular A-133.

## 1.2 Situations where the Guide is not appropriate

The audit procedures and reporting requirements in the *Provider Agency Audit Guide* are designed for an audit of a provider of care and services that are paid for with department funding. The *Guide* is not appropriate for audits for other companies an agency might contract with for goods and other services, such as a contract to develop a computer application or a contract to perform accounting services. If an agency wants to require an audit from a company that it contracts with for something other than care and services, the agency should consult [generally accepted auditing standards](#) and, possibly, [Government Auditing Standards](#) to determine the type of audit to specify.

## 1.3 Overview of the Guide

Unless specified otherwise by the granting agency, all providers who receive department funding in excess of the statutory threshold (see [Section 10.2](#)) need to have an agency-wide audit in accordance with the *Provider Agency Audit Guide*. Granting agencies may choose to waive the audit or to require a different kind of audit based on assessing the risk that the provider will have problems administering their programs and matching that risk to the audit requirement. The *Guide* also gives guidance on performing the audit, preparing the audit report, sending the audit report to

the granting agency, and ensuring audit quality:

- [Chapter 2 “Identifying and assessing risks”](#) describes factors a granting agency should consider when assessing the risks associated with a provider’s administration of the granting agency’s program.
- [Chapter 3 “Selecting the type of audit”](#) covers the granting agency’s use of the assessed risk from Chapter 2 and other factors to decide whether an audit should be required, and if so, what kind of audit to require.
- [Chapter 4 “Types of audits”](#) describes the three different types of audits covered by the *Guide*: agreed-upon procedures, program audits, and agency-wide audits.
- [Chapter 5 “Compliance requirements”](#) covers the auditing procedures that the auditor needs to perform in the course of the audit.
- [Chapter 6 “Fraud”](#) discusses the special factors an auditor needs to consider when assessing fraud in a financial assistance environment.
- [Chapter 7 “The audit report”](#) provides examples of the auditor’s reports and other report elements for audits performed in accordance with the *Guide*.
- [Chapter 8 “Audit report submission”](#) covers sending the audit report to the granting agency or, under some circumstances, a letter in lieu of an audit report.
- [Chapter 9 “Audit quality”](#) discusses the roles the provider, auditor, and granting agency play in ensuring audit quality.
- [Chapter 10 “Appendices”](#) include information on contacting the department, understanding the statutory audit requirements, distinguishing between a vendor and a subrecipient, and reviewing an audit report.
- [Chapter 11 “Index and definitions”](#) is an index of topics covered in this chapter. It also includes definitions and internet addresses for on-line materials.

## **1.4 Effective date of the Guide**

The 1999 revision of the *Provider Agency Audit Guide* is to be used for audits of fiscal years ending on or after June 30, 1999. Early application is encouraged.

## **1.5 Updates to the Guide**

The *Provider Agency Audit Guide* and all updates will be on line at <http://www.dhfs.state.wi.us/grants>. Auditors should visit this website as part of audit planning to ensure that their copy of the *Guide* is current and to obtain any updates. People who do not have internet access can obtain updates from the department ([Section 10.1](#)).

## **1.6 Reference to the Guide in audit reports**

All audit reports for audits performed in accordance with this *Provider Agency Audit Guide* shall reference this *Guide* with the other standards by which the audit was performed. The *Guide* shall be referred to as “the *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections.”

Examples of auditor’s reports with the appropriate references are in [Section 7.2](#).

## **1.7 The Guide and OMB Circular A-133**

The department does not require audits to be in accordance with [OMB Circular A-133](#) “Audits of States, Local Governments, and Non-Profit Organizations” unless an A-133 audit is needed according to the federal standards. However, the requirements in the *Provider Agency Audit Guide* parallel those in A-133 in some parts. This offers several advantages:

- Reduction in potential for inconsistency between the requirements of the *Guide* and A-133 in those cases where an agency’s audit needs to be in accordance with both sets of requirements.
- Makes guidance and knowledge for A-133 audits transferable to audits performed in accordance with the *Guide*.
- Ensures that agreed-upon procedures engagements ([Section 4.1](#)) meet the standards established in A-133 so the cost of the engagement can be charged to federal grants.

Although some of the audit requirements are similar, an audit in accordance with the *Provider Agency Audit Guide* and an audit in accordance with OMB Circular A-133 are not equivalent. The requirements of the *Guide* reflect the particular environment for providers that receive funding from the department, and the *Guide* includes recommended audit procedures that expand on those found in [generally accepted auditing standards](#) and A-133. Nor is an audit in accordance with the *Guide* equivalent to one in accordance with A-133, because A-133 requires audit testing for federal programs that will often be more extensive than the requirements of the *Guide*.

## **1.8 The Guide and allowable cost requirements**

The cost of an audit is an allowable cost for reimbursement from department programs if:

- The audit was performed in accordance with the *Provider Agency Audit Guide*,
- The scope of the audit met or exceeded the type of audit required by the granting agency ([introduction to Chapter 4](#)), and
- (for federally funded programs only) the cost of the audit meets OMB Circular A-133’s criteria for allowability (see [Section 3.1.3](#)).



## 2 Identifying and assessing risks

All providers who receive department funding in excess of the statutory threshold for requiring an audit ([Section 10.2](#)) need to have an [agency-wide audit](#) *unless* the granting agency chooses to use the risk-based approach to waive the audit or to reduce the extent of the audit. Examples of situations where the granting agency would choose not to use the risk-based approach include when it knows the provider needs to have a single audit in accordance with [OMB Circular A-133](#) or when it requires agency-wide audits as a matter of policy.

Under the risk-based approach, the granting agency matches the monitoring and audit methods to the risk that a provider will have problems in administering a contract for the purchase of care and services. The risk factors are in three categories:

- 2.1 [Risks associated with a particular program.](#)
- 2.2 [Risks associated with a particular provider.](#)
- 2.3 [Risks associated with the granting agency.](#)

The granting agency determines whether the risk factors point toward lower or higher risk and uses the results of these individual factors to assess whether the provider's overall risk is low, moderate, or high. After the granting agency identifies and assesses risks, the next step is to select the monitoring or audit that best complements the granting agency's other monitoring efforts. That step is covered in [Chapter 3](#).

When the granting agency chooses to use the risk-based approach, the risk assessment must be performed in a systematic and rational manner, and it must be documented. [Illustration 2.1](#) "Risk Identification and Assessment Worksheet" offers one approach to performing and documenting a risk assessment. Granting agencies may choose to develop their own risk assessment tools based on the content of this chapter. They may also choose to add other risk factors or to assign some risk factors more weight than others. The granting agency's auditor will test the granting agency's assessment of risks for its providers as part of the audit of the granting agency. The audit procedures that the granting agency's auditor will follow when testing a risk assessment are in [Section 5.1.1](#).

Ideally, the granting agency will perform the risk assessment and select the monitoring or audit methods before contracting with the provider. Granting agencies may consider some of the risk factors (for example, the provider's past performance) when deciding whether to continue to contract with a provider. In addition, the results of the risk assessment are used to determine the monitoring efforts that are needed, some of which may require special contract provisions.

The provider's auditor may find the risk factors described in this section useful during audit planning, especially when selecting programs for program level testing in an agency-wide audit ([Section 4.3](#)). In addition, the granting agency should make its risk assessment available to the auditor, so that the auditor can take the granting agency's concerns into account while planning the audit.

## Illustration 2.1 Risk Identification and Assessment Worksheet

Risk Factors		Lower Risk	Higher Risk
<b>2.1</b>	<b><u>Program Characteristics:</u></b>		
2.1.1	<u>Lifestage of the program</u>	? More than two years	? Less than two years
2.1.2	<u>Complexity of the program</u>	? Low level of complexity	? High level of complexity
2.1.3	<u>"Sensitivity" of the program</u>	? Low level of sensitivity	? High level of sensitivity
2.1.4	<u>Who decides eligibility for the program</u>	? Granting agency	? Provider
2.1.5	<u>Who decides amount or type of service from the program</u>	? Granting agency	? Provider
2.1.6	<u>Payment method</u>	? Unit times unit price and granting agency has independent means of knowing reasonability of price and number of units.	? All other payment methods
2.1.7	<u>Competition</u>	? Competitive basis	? Not competitive
	Other characteristics:	?	?
<b>2.2</b>	<b><u>Provider Characteristics:</u></b>		
2.2.1	<u>Provider's total funding from the department</u>	? Less than \$75,000	? Greater than \$75,000
2.2.2	<u>Length of time the provider has been in business</u>	? More than two years	? Less than two years
2.2.3	<u>Provider's experience and past performance</u>	? Extensive experience and history of good performance	? Little to no experience or history of problems with performance
2.2.4	<u>Provider's financial health and practices</u>	? No financial difficulties or problems with financial practices	? Financial difficulties or problems with financial practices
2.2.5	<u>Provider's compliance and internal controls</u>	? No problems	? Some problems
2.2.6	<u>Provider's fiduciary responsibilities</u>	? No fiduciary responsibility	? Provider has fiduciary responsibilities
2.2.7	<u>Provider's subcontracting</u>	? Little to no subcontracting or effective contract monitoring function	? Extensive subcontracting or ineffective contract monitoring function
	Other characteristics:	?	?
<b>2.3</b>	<b><u>Granting Agency Characteristics:</u></b>		
2.3.1	<u>Granting agency's experience with the provider agency</u>	? Extensive experience	? Little to no experience
2.3.2	<u>Granting agency's experience with the program</u>	? Extensive experience	? Little to no experience
2.3.3	<u>Granting agency's monitoring methods</u>	? All significant risks covered by alternate monitoring	? Some significant risks not covered by alternate monitoring
	Other characteristics:	?	?
<b>Overall risk assessment:</b>		? <b>Low risk</b>	
		? <b>Moderate risk</b>	
		? <b>High risk</b>	

## **2.1 Risks associated with a particular program**

Programs differ in their inherent risks, which include:

- 2.1.1 [Lifestage of the program](#)
- 2.1.2 [Complexity of the program](#)
- 2.1.3 [“Sensitivity” of the program](#)
- 2.1.4 [Who decides eligibility for the program](#)
- 2.1.5 [Who decides amount or type of service from the program](#)
- 2.1.6 [Payment method](#)
- 2.1.7 [Competition](#)

In addition to the factors listed in this section, the department may have identified risks specific to certain programs. In some cases, the department will send granting agencies alerts or other program bulletins describing the issues it is concerned about. The department’s contract administration or audit staff ([Section 10.1](#)) are also good sources for information on risks for particular programs.

### **2.1.1 Lifestage of the program**

Established programs generally have less risk than would newer programs. However, recent significant changes to an established program can increase risk.

### **2.1.2 Complexity of the program**

Programs with simpler requirements (eligibility, calculations, reporting) generally have less risk than would programs with more complex requirements.

### **2.1.3 “Sensitivity” of the program**

The “sensitivity” of the program is made up of two factors: the vulnerability of clients and the visibility of the program. Programs that serve vulnerable clients generally have higher risk because these clients might not be able to convey to others that they are not receiving adequate services. High visibility can cut both ways: while any problems are more likely to become apparent, which would reduce risk, any problems that do occur can quickly harm the credibility of both the provider and the granting agency, which increases risk.

### **2.1.4 Who decides eligibility for the program**

Risk is lower when the granting agency determines eligibility, and it is higher when the provider agency determines eligibility.

### **2.1.5 Who decides amount or type of service from the program**

Risk is lower when the granting agency determines what services a client gets, and it is higher when the provider makes these decisions.

## 2.1.6 Payment method

All payment methods have risks, although some are inherently more risky than others depending on the circumstances. Most payment methods are a variant of one of four basic methods of making payments to providers:

- *Cost-based contract* -- In a cost-based contract, the provider reports costs to the granting agency, who reimburses the costs. Cost-based contracts include those where
  - the provider is reimbursed for its costs,
  - the provider is responsible for the cost of providing care and services up to a certain amount, after which the granting agency shares in the cost or assumes full risk of the cost overruns,
  - the provider's reimbursement is limited by allowable costs, such as the agency maintaining a **reserve in accordance with Wis. Stat. 46.036** ([Section 7.1.6](#)), and
  - actual allowable cost information is needed for federal reporting purposes, such as group homes and child caring institutions ([Section 7.1.5](#)).

A cost reimbursement method can have high risk if the granting agency does not have means of ensuring that the provider is claiming only allowable costs for reimbursement.

Some of the risks of inappropriate payments for a cost-based contract include unallowable costs resulting from:

- Inaccurate cost reports
  - Misallocation of costs or cost shifting
  - Lack of approvals for costs
  - Inappropriate or unnecessary items
  - Lack of documentation for costs
- 
- *Performance-based contract*<sup>1</sup> – Under a performance-based contract, payments are tied to achieving performance goals. Developing performance measures that promote the intent of the program without introducing additional risks to the program can be very difficult, and this contracting method should be used very carefully. Some of the risks of inappropriate payments for a performance based contract include:
    - Shift of focus from overall program purpose to measured activities
    - Inaccurate performance reports
- 
- *Units-times-unit-price contract* -- Under a unit times unit price system, the provider and the granting agency decide on a per unit price for the service, the provider reports the number of units of service to the granting agency, and the granting agency pays the provider for the number of units items the price per unit. A unit times unit price method can have high risk if the granting agency does not have means of ensuring that the unit price is reasonable and that the number of units the provider claims to have supplied is accurate.

---

<sup>1</sup> At this time, Wisconsin Statutes allow performance-based contracts and capitated contracts only for certain services funded by the Medical Assistance program. Contact the department ([Section 10.1](#)) if you have questions about the allowability of a contract method.

Some of the risks of inappropriate payments for a unit-times-unit price contract include:

- Inaccurate count of units
  - Price is too high or too low
  - Unnecessary units
  - Undocumented units
- *Capitated contract*<sup>1</sup> – In a capitated contract the driver for payment is reported eligible enrollees. The contractor is paid a certain amount to provide services to a target group, and it is held accountable for providing the services despite the final cost. There are two types of capitated contracts:

*Full risk* – the provider is responsible for all costs of providing the care or services.

*Shared risk* – the provider is responsible for costs of providing care and services up to a certain amount, after which the granting agency shares in the costs.

Some of the risks of inappropriate payments in capitated contracts include:

- Rates set too low or too high.
- Inaccurate reporting of number of eligible enrollees or services provided to enrollees.
- Reduction in costs through reduction in level of services or types of services provided to enrollees.
- For shared risk capitated contracts, the risk factors associated with cost-based contracts (see [cost-based contracts](#)).

Granting agencies can change the relative amount of risk by selecting a payment method that suits the particular circumstances. For example, if the granting agency has a program that it does not have much experience with, a unit times unit price contract can be very risky unless there is a means of ensuring that the unit price is reasonable. One way to mitigate this risk is to use a cost-based contract for the first few years to establish a baseline for costs.

### **2.1.7 Competition**

Grants that are awarded on a competitive basis are generally lower risk than others because the competitive process helps reduce the likelihood that the granting agency will be overcharged for the service provided under the grant.

Some characteristics of awards made on a competitive basis include:

- The granting agency has a written conflict of interest policy, which it followed in making the award.
- The award was made as a result of a written bid.
- More than two providers bid on the award.

---

<sup>1</sup> See Footnote Number 1.

- The granting agency has credible, independent means of knowing that the price is reasonable, not only whether the price is too high, but also whether it is too low.
- As part of the bid process, the granting agency identified and evaluated the level of services to be provided.

## **2.2 Risks associated with a particular provider**

Providers also have inherent risks. Some of the risks associated with particular providers include:

- 2.2.1 [Provider's total funding from the department](#)
- 2.2.2 [Length of time the provider has been in business](#)
- 2.2.3 [Provider's experience and past performance](#)
- 2.2.4 [Provider's financial health and practices](#)
- 2.2.5 [Provider's compliance and internal controls](#)
- 2.2.6 [Provider's fiduciary responsibilities](#)
- 2.2.7 [Provider's subcontracting](#)

### **2.2.1 Provider's total funding from the department**

A good starting point in considering risk associated with a provider is the total amount of department funding. The amount of funding is a measure of the amount of the department's exposure if the provider has problems administering programs. Smaller amounts of funding correspond to lower exposure, and thus lower risk, while larger amounts of funding correspond to higher exposure and risk. However, the level of funding is just one of the factors that feed into risk. All of the other assessment info in this guide also influence risk assessment. In other words, just because a provider was paid \$175,000 does not automatically mean the provider is high risk.

Since exposure is considered from the department level, all sources of department funding need to be taken into account. This funding can be direct from the department or passed through one or more of the agencies.

The statutes establish a threshold for when an audit is required unless the audit is waived by the department (see [Section 10.2](#) for the information on the statutes and [Section 3.2](#) for information on waiving an audit). In addition to the statutory threshold, the department has established the following guidelines for risk for different levels of funding:

**Table 2.2 Risk Associated With Total Department Funding**

<b>Amount of department funding from all sources</b>	<b>Risk</b>
Less than the statutory threshold ( <a href="#">Section 10.2</a> )	Audit not required
More than the statutory threshold and less than \$75,000	Low
More than \$75,000 and less than \$150,000	Moderate
More than \$150,000	High

### **2.2.2 Length of time the provider has been in business**

An agency that has been in business for several years will generally be lower risk than a start-up agency. A granting agency can mitigate these risks by performing additional monitoring for new providers.

### **2.2.3 Provider's experience and past performance**

The provider's experience and past performance are key factors in risk: extensive experience and a history of good performance generally means lower risk, while little to no experience or a history of poor performance generally means higher risk.

### **2.2.4 Provider's financial health and practices**

Providers who have good financial health and sound financial practices generally have lower risk. Providers have higher risk if they have trouble paying their bills or if they are in danger of going out of business due to poor financial condition. Providers also are higher risk if they "self deal," attempting to circumvent limits on allowable profits or reserves by doing business with related parties. The granting agency should consider the following questions:

- Does the agency have a history of financial difficulties?
- Does it do business with related parties and, if yes, does this business affect department funds?

### **2.2.5 Provider's compliance and internal controls**

A provider with a history of compliance and good internal controls generally is lower risk than a provider with a history of problems in compliance or internal controls.. Some questions to answer in assessing the provider's compliance and internal controls include:

- Does the provider's audit report show weaknesses in internal controls that an unscrupulous employee could take advantage of?
- Does the provider's audit report show findings of non-compliance with requirements that relate to department programs?
- Do the same findings recur year after year? This could be a sign that management has not made a commitment to improving its operations or ensuring that it complies with the terms of the contract.
- Does the provider have adequate segregation of duties? If not, does the provider have effective compensating controls?

### **2.2.6 Provider's fiduciary responsibilities**

Providers that have fiduciary responsibilities, such as protective payee, are higher risk than providers that do not have such responsibilities.

### **2.2.7 Provider's subcontracting**

Subcontracting affects risk because the subcontractor performs program functions, but the provider remains responsible for compliance with the terms and conditions of the contract with it's granting agency. Risk higher if the provider subcontracts material activities to other agencies. Risk is also higher if the provider does not have an effective monitoring function for overseeing these contracts.



## **2.3 Risks associated with the granting agency**

The third area of risk is inherent risk of the granting agency itself. Granting agencies differ in their experience in contracting with particular programs or providers and in the availability and effectiveness of their monitoring efforts:

- 2.3.1 [Granting agency's experience with the provider agency](#)
- 2.3.2 [Granting agency's experience with the program](#)
- 2.3.3 [Granting agency's monitoring methods](#)

### **2.3.1 Granting agency's experience with the provider agency**

Contracting with a provider that the granting agency has done business with before generally means lower risk than contracting with a provider the granting agency hasn't done business with before.

### **2.3.2 Granting agency's experience with the program**

The granting agency having extensive experience with the program generally means lower risk than when the granting agency has little or no experience with the program.

### **2.3.3 Granting agency's monitoring methods**

Risk is lower overall when the granting agency has monitoring methods that effectively mitigate the other risks identified in this section. The granting agency must balance the negative consequences of something going wrong with the costs of the measures to prevent or detect that problem. In doing so, the granting agency may choose to increase its other monitoring efforts so it can waive the audit or so that it can require a less extensive audit than the risks would otherwise indicate. However, due to the inherent limitations of audits, a granting agency cannot rely just on audits and forgo other monitoring efforts.

Some of the possible monitoring efforts include:

- Providing technical assistance to the provider in understanding and meeting the granting agency's expectations.
- Reviewing financial reports and claims for reimbursement for reasonability and mathematical accuracy before authorizing payment.
- Requiring supporting documentation for claims for reimbursement.
- Reviewing performance reports and correlating them to financial reports and claims for reimbursement.
- Making site visits to observe services being delivered and to review program records.
- Surveying clients (or their families or caseworkers) on satisfaction with services and responding to complaints about inadequate services.
- Following up on complaints from whistle-blowers.

- Watching for media stories on the agency.
- Performing background checks on key agency staff.
- Obtaining references or performing other checks to confirm that key agency staff have sufficient experience to administer the contract.

The granting agency should perform a thorough internal review of its monitoring efforts to confirm that the scope and methods of monitoring combined with the extent of audit coverage provide sufficient oversight given the risks involved. The granting agency can use the audit program that the granting agency's independent auditor would use when performing the audit of the granting agency as a starting point for such a review ([Section 5.1.1](#)).

## 3 Selecting the type of audit

All providers who receive department funding in excess of the statutory threshold ([Section 10.2](#)) need to have an agency-wide audit *unless* the granting agency chooses to waive the audit or reduce the extent of the audit. This chapter focuses deciding whether to require an audit, and if so, the type of audit to require. [Section 3.1](#) covers matching the risks identified in [Chapter 2](#) to the type of audit, while taking into account the federal audit requirements, weighing the cost of monitoring and auditing methods against the benefits of these methods, and considering the need for audited information. The steps for obtaining the department's approval for waiving the audit are in [Section 3.2](#). The granting agency should indicate the type of audit needed in its contract with the provider using the contract language in [Section 3.3](#). Finally, the granting agency needs to document its decision process, which is covered in [Section 3.4](#).

### 3.1 Selecting the audit requirement

Under the risk-based approach, the granting agency considers the risk of problems when deciding whether to require an audit, and if so, which of the three types of audits to require as a minimum type of audit:

- **Agreed-upon procedures engagement** -- In an agreed-upon procedures engagement, the granting agency hires an auditor to perform specific audit procedures ([Section 4.1](#)).
- **Program audit** -- In a program audit, the provider hires an auditor to perform testing for just the department programs ([Section 4.2](#)).
- **Agency-wide audit** -- In an agency-wide audit, the provider hires an auditor to perform a financial statement audit in accordance with [Government Auditing Standards](#) and to perform program-level testing for selected department programs ([Section 4.3](#)).

The granting agency's decision is based in large part on the risk ([Section 3.1.1](#)). But, the granting agency also needs to take into account the federal audit requirements, when applicable ([Sections 3.1.2](#) and [3.1.3](#)), the cost of monitoring and auditing methods in comparison to the benefits of these methods ([Section 3.1.4](#)), and the need for audited information ([Section 3.1.5](#)).

#### 3.1.1 Risk

[Table 3.1](#) "Assessed Level of Risk and Level of Monitoring/Audit" shows the relationship between the assessed level of risk from [Chapter 2](#) and the minimum type of monitoring or audit that the granting agency should require. If the risks are low, the granting agency may choose to waive the audit and rely just on other monitoring efforts. If risk is moderate, the granting agency chooses between an agreed-upon procedures engagement or a program audit. If risk is high, the granting agency would require an agency-wide audit.

The granting agency can decrease the risk, and thus the type of audit that is indicated, by increasing its other monitoring efforts. For example, if payment is made on a unit times unit price basis, the granting agency may choose to pre-approve all units of service or to confirm units of service in some other manner. This additional monitoring could be sufficient to enable the granting agency to prudently waive the audit.

**Table 3.1 Assessed Level of Risk and Level of Monitoring/Audit**

Minimum monitoring or audit requirement:	Is appropriate when the assessed level of risk is:
Waive audit and rely on other monitoring efforts ( <a href="#">Section 3.2</a> )	Low
Arrange for agreed-upon procedures ( <a href="#">Section 4.1</a> )	Moderate
Require program audit ( <a href="#">Section 4.2</a> )	Moderate
Require agency-wide audit ( <a href="#">Section 4.3</a> )	High

In addition to overall risk, the granting agency should consider the type of risk when deciding the minimum type of audit to require. For example, an agency-wide audit is more appropriate when a provider's overall risk is moderate, but the risk associated with financial condition or other agency-wide issues is high.

### 3.1.2 Federal audit requirements

If the provider meets the federal criteria for needing a program audit or a single audit in accordance with [OMB Circular A-133](#) "Audits of States, Local Governments, and Non-Profit Organizations," it must have such an audit. The department does not authorize any granting agency to waive federal audit requirements. (If federal funding is passed through the department, the audit also needs to be in accordance with this *Guide* in addition to meeting the federal audit requirements, because the *Guide* includes audit procedures that build on or are in addition to those required by A-133.)

Under federal law, governments and non-profit organizations are required to have audits in accordance with OMB Circular A-133 if they expend more than \$300,000 in federal awards. The audit may be a program audit if the agency received funding from only one federal program or cluster of programs and if the federal program does not require a financial statement audit. Otherwise, the audit needs to be a single audit covering the entire operations of the provider.

Federal agencies may extend A-133's scope to cover for-profit organizations who receive their funding. For example, the federal Department of Health and Human Services requires that for-profit organizations that expend more than \$300,000 in federal awards have either:

- A financial related audit in accordance with [Government Auditing Standards](#) of the program(s) or
- An A-133 audit.

Only payments made to recipients and subrecipients are considered to be federal awards, and thus subject to A-133. Payments made to vendors are not federal awards, so vendors do not need A-133 audits. However, the Wisconsin statutes requiring audits do not distinguish between recipient, subrecipients, and vendors, so any agency receiving department funds that exceed the statutory threshold for requiring an audit ([Section 10.2](#)) needs to have an audit in accordance with this *Guide*. [Section 10.3](#) includes the federal guidance on distinguishing between a subrecipient and vendor-type relationship and how this distinction applies to certain types of providers.

Federal funding retains its identity as federal funding even when it is sub-granted to other agencies, and auditors of provider agencies to know whether programs are federally funded in order to properly plan and perform the audit. Each granting agency is responsible for ensuring that auditors of its provider agencies have funding information. The department fulfills this

responsibility by publishing an annual listing that shows whether particular programs are funded by the federal government. This listing can be found on the respective department homepages or can be obtained by contacting the respective departments ([Section 10.1](#)).

### 3.1.3 Prohibition on charging some audit costs to federal grants

[OMB Circular A-133](#) allows cost of audits performed in accordance with that Circular to be charged to federal awards, and it prohibits use of federal funds to pay for audits that are not required by federal standards, i.e. audits of local governments and non-profits that expend less than \$300,000 in federal awards. At the same time, state law requires agencies to have audits if they receive department funds in excess of the statutory threshold ([Section 10.2](#)), regardless of whether the funding is state or federal pass-through. However, A-133 also indicates that federal grants can be charged for the cost of agreed-upon procedures engagements, if the engagement:

- Is performed in accordance with the AICPA's generally accepted auditing standards or attestation standards,
- Is arranged and paid for by the granting agency, and
- Addresses only one or more of the following types of compliance requirements: activities allowed or unallowed; allowable costs/cost principles; eligibility, matching, level of effort, earmarking; and reporting.

The agreed-upon procedures engagement defined in [Section 4.1](#) meets these requirements. Therefore, if a provider received enough funding to require an audit by state law, but it did not expend enough federal awards to require an audit by federal policy, the granting agency has three options:

- Waive the audit and rely on other monitoring methods to replace what it would learn from an audit,
- Hire an auditor to perform an agreed-upon procedures engagement in accordance with the *Provider Agency Audit Guide*, in which case the granting agency can charge the cost of the agreed-upon procedures to the federal program, or
- Require a program or agency-wide audit, in which case the cost of the audit must be paid by state or local money which also funds the program.

### 3.1.4 Cost/benefit

The third factor granting agencies need to consider is the cost of monitoring or auditing in comparison to the benefits derived from such activities. One example of the consideration of cost/benefit was in [Section 3.1.1](#), where a granting agency may decide that it is less costly overall to increase other monitoring efforts so it can prudently reduce or waive the audit requirement. Other examples of factors to consider in a cost/benefit decision include:

- ***Size of contract in relation to provider's overall business*** – An agency-wide audit might cost far more in relation to its benefit when the granting agency's contract represents a very small portion of the provider's overall business, such as when the provider is a hospital or large organization. The granting agency could increase other monitoring efforts, hire an auditor to perform agreed-upon procedures, or require the provider to have

a program audit.

- **Hardship** – Occasionally, the cost of an audit will be a hardship for a provider, but these cases should be rare since providers should know when entering into a contract that an audit will be required, and they should have taken the cost of the audit into consideration at that time. The granting agency may choose to increase other monitoring efforts so that it can waive the audit.
- **Number of programs** – An agency-wide audit may be more efficient than an agreed-upon procedures engagement or a program audit when the provider has a large number of programs.
- **Number of granting agencies** – An agency-wide or program audit may be more efficient when the provider has more than one granting agency, unless the granting agencies cooperate in arranging for an agreed-upon procedures engagement.
- **Granting agency's resources** – The granting agency may find that it does not have alternate resources for increasing other monitoring efforts or to oversee agreed-upon procedures engagements. In these cases, program audits or agency-wide audits may be more efficient.

### 3.1.5 Need for audited information

Audits may be required for reasons other than as a method of monitoring a contract between a granting agency and a provider, such as when an audit is a condition of licensure and when audits are a part of the federal claiming process. An example of the latter situation is the audit requirements for group homes and child caring institutions ([Section 7.1.5](#)). The Department of Health and Family Services needs audited units of service and program expenses for group homes and child caring institutions to support its claims for federal funding, which means that providers who operate group home or child caring institution facilities must have either a program or agency-wide audit. (The audit cannot be waived, since it is needed for claiming federal funding, and the audit cannot be an agreed-upon procedures engagement since the department is not a party to the engagement.)

### 3.1.6 Recap on type of audit

*Waiver of the audit* ([Section 3.2](#)) is appropriate when:

- The granting agency assessed the level of risk at low ([Section 3.1.1](#)).
- The granting agency increased other monitoring efforts to reduce risk to a low level ([Section 3.1.1](#)).
- The contract is funded solely with federal funds and agency did not expend enough federal awards to require an A-133 audit ([Section 3.1.3](#)).
- The department funding is a very small part of the provider's overall business ([Section 3.1.4](#)).
- An audit would be a hardship on the provider ([Section 3.1.4](#)).

An *agreed-upon procedures engagement* ([Section 4.1](#)) is appropriate when:

- The granting agency assessed risk at moderate ([Section 3.1.1](#)).
- The granting agency increased other monitoring efforts to reduce risk to a moderate level ([Section 3.1.1](#)).
- The contract is funded solely with federal funds and agency did not expend enough federal awards to require an A-133 audit ([Section 3.1.3](#)).
- The department funding is a very small part of the provider's overall business ([Section 3.1.4](#)).
- The provider receives funding from only one granting agency or granting agencies are willing to cooperate to hire an auditor to perform one AUP engagement ([Section 3.1.4](#)).
- The granting agency has the resources and technical knowledge to set up and monitor agreed-upon procedures engagements ([Section 3.1.4](#)).

A *program audit* ([Section 4.2](#)) is appropriate when:

- The granting agency assessed risk at moderate ([Section 3.1.1](#)).
- The granting agency increased other monitoring efforts to reduce risk to a moderate level ([Section 3.1.1](#)).
- The provider meets the federal criteria for needing a program audit ([Section 3.1.2](#)).
- The department funding is a very small part of the provider's overall business ([Section 3.1.4](#)).
- The provider receives funding from more than one granting agency ([Section 3.1.4](#)).
- Audited information is needed ([Section 3.1.5](#)).

An *agency-wide audit* ([Section 4.3](#)) is appropriate when:

- The granting agency chooses not to use the risk-based approach ([Chapter 2 Introduction](#)).
- The granting agency assessed risk at high ([Section 3.1.1](#)).
- The provider meets the federal criteria for needing a single audit ([Section 3.1.2](#)).
- The provider receives funding from multiple programs ([Section 3.1.4](#)).
- The provider receives funding from more than one granting agency ([Section 3.1.4](#)).
- Audited information is needed ([Section 3.1.5](#)).

## **3.2 Waiving the audit**

The statutes (see [Section 10.2](#)) include a provision allowing the department to waive audits when

the funding received exceeds the statutory threshold for requiring an audit. As discussed in the [Section 3.1](#), waiving an audit is appropriate under certain circumstances. When the granting agency who contracts with department funds is not the department itself, such as when a county subgrants department funds to a provider, both the granting agency and the department need to approve the waiver. A granting agency can only waive an audit in relation to its own programs.

The granting agency may decide at the time of the contract that it will waive the audit and include provisions stating such in the contract. Alternately, the granting agency may decide later to waive the audit, perhaps based on additional information received throughout the contract period or on the request of the provider. An example is when the provider's circumstances changed during the contract period so that the audit has become a hardship for the provider ([Section 3.1.4](#)).

The process for waiving an audit depends on whether or not the granting agency is the department itself:

- When the granting agency is not the department, for example, if the granting agency is a county that subgranted department funds:
  1. If the request for the waiver of the audit report originates with the provider, the provider sends each granting agency a written request for a waiver of the audit requirement, including an explanation of the reasons for the waiver.
  2. The granting agencies decide whether they approve the waiver. All granting agencies that provide funding to the provider must approve the waiver in order for the audit to be waived. If the granting agencies approve the waiver, they pass the waiver request to the department for the department's approval.
  3. The department decides whether to approve granting a waiver and relays the decision on the waiver to the granting agencies.
  4. The granting agencies relay the decision on the waiver to the provider.
- When the granting agency is the department, the process is similar:
  1. If the request for the waiver of the audit report originates with the provider, the provider sends the program divisions a written request for a waiver of the audit requirement, including an explanation of the reasons for the waiver.
  2. The program divisions decide whether they approve the waiver. If the program divisions approve the waiver, they pass the waiver request to the department's central audit staff for the department's approval. In cases where central audit staff knows that the provider receives funding from more than one department, the central audit staff will check with other department(s) on their position on waiving the audit. If the audit waiver is approved, the central audit staff will clearly indicate in their letter of approval which departments have approved the waiver.
  3. The central audit staff decide whether to approve granting a waiver and relays the decision on the waiver to the program divisions.
  4. The program divisions relays the decision on the waiver to the provider.

When a granting agency waives an audit for a provider, the granting agency must document what other monitoring efforts it is using, what is found through these other monitoring efforts, and what actions the granting agency takes on the results of these monitoring efforts.

### **3.3 Preparing the contract**



The granting agency should include a provision on the type of audit it is requiring the provider to have in its contract with the provider. The recommended contract language for the different types of audit requirements is:

➤ ***Waive the audit and rely just on other monitoring efforts.***

The purchaser has waived the audit requirement under s. 46.036 for this contract. This provision does not absolve the provider from needing to meet any federal audit requirements that may be applicable any audit requirements of other contracts.

➤ ***Agreed-upon procedures engagement.***

The purchaser will arrange and pay for an agreed-upon procedures engagement that will meet the audit requirements of s. 46.036 for this contract. This provision does not absolve the provider from needing to meet any federal audit requirements that may be applicable or any audit requirements of other contracts.

➤ ***Program audit.***

The provider shall provide an annual program or agency-wide audit to the granting agency. The audit shall be in accordance with the requirements of OMB Circular A-133 if the provider meets the criteria of that Circular for needing an audit in accordance with that Circular. The audit shall also be in accordance with:

- The *State Single Audit Guidelines*, if the provider is a local government that meets the criteria of OMB Circular A-133 for needing an audit in accordance with that Circular or
- The *Provider Agency Audit Guide*, 1999 revision, for all other providers.

➤ ***Agency-wide audit.***

The provider shall provide an annual agency-wide audit to the granting agency. The audit shall be in accordance with the requirements of OMB Circular A-133 if the provider meets the criteria of that Circular for needing an audit in accordance with that Circular. The audit shall also be in accordance with:

- The *State Single Audit Guidelines*, if the provider is a local government that meets the criteria of OMB Circular A-133 for needing an audit in accordance with that Circular or
- The *Provider Agency Audit Guide*, 1999 revision, for all other providers.

### **3.4 Documenting the audit decision process**

When the granting agency requires something other than an agency-wide audit, it needs to document its audit decision process, including the assessment of risk ([Chapter 2](#)) and other factors considered in deciding the type of audit ([Section 3.1](#)).

The granting agency's own audit will include evaluation of the granting agency's identification and assessment of risk and its matching of monitoring and auditing efforts to the level of risk. The recommended audit program for assessing the granting agency's monitoring of its provider

agencies in [Section 5.1.1](#).

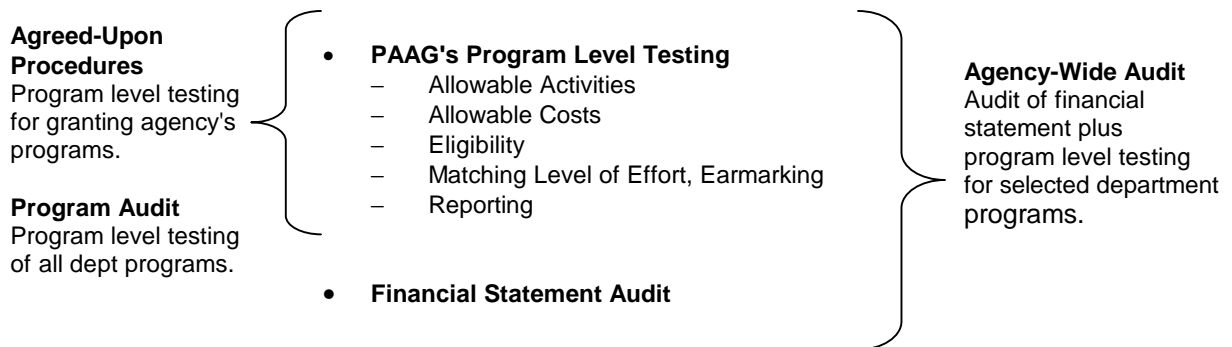
## 4 Types of audits

Three types of audits can be performed under the *Provider Agency Audit Guide*:

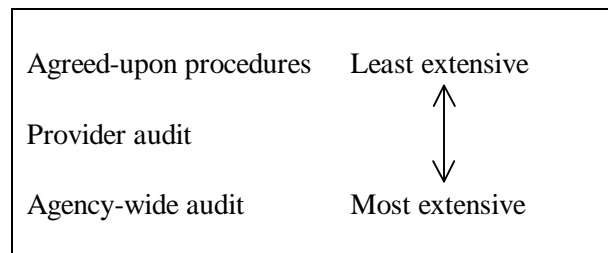
- 4.1 [Agreed-upon procedures](#)
- 4.2 [Program audit](#)
- 4.3 [Agency-wide audit](#)

These audits all have a common core of audit procedures, which consists of auditing five characteristics at the program level: allowable activities, allowable costs, eligibility, matching, and reporting. In an agreed-upon procedures engagement, the granting agency hires the auditor to perform this testing for the granting agency's programs. In a program audit, the provider hires the auditor to perform this testing for all department programs. And, in an agency-wide audit, the provider hires the auditor to perform a financial audit and to perform the testing for selected department programs. [Illustration 4.1](#) "Audits in Accordance with the *Provider Agency Audit Guide*" shows the relationships between these different types of audits.

**Illustration 4.1 Audits in Accordance with the *Provider Agency Audit Guide***



The three types of audits can also be viewed as a continuum from least to most extensive:



**When there is disagreement on the type of audit --** A provider could find disagreement on the type of audit that it needs to have. A granting agency might specify a more extensive audit than the provider believes is appropriate. Or, the granting agency might specify a less extensive audit, when the provider believes that a more extensive audit is good business practice. In addition, providers could have different audit requirements from different granting agencies.

The provider is required by contract to have an audit that meets the minimum requirements specified by the granting agencies. So, if a granting agency specifies a program audit, the provider needs to have a program audit or an agency-wide audit.

The cost of an audit that meets or exceeds the type of audit specified by the granting agency is an allowable cost for reimbursement from department programs, except when prohibited by OMB Circular A-133 ([Section 3.1.3](#)).

## 4.1 Agreed-Upon Procedures

In an agreed-upon procedures engagement in accordance with the *Provider Agency Audit Guide*, the granting agency hires an auditor to perform specific auditing procedures and to report the results of these procedures to the granting agency. Agreed-upon procedures engagements must be performed by a certified public accountant in accordance with the [generally accepted auditing standards](#) established by the American Institute of Certified Public Accountants for such engagements, including consideration of fraud ([Chapter 6](#)). In addition, agreed-upon procedures engagements must be in accordance with [Government Auditing Standards](#) and the standards in the *Guide*.

The audit procedures in an agreed-upon procedures engagement in accordance with this *Guide* are limited to activities allowed or unallowed ([Section 5.1](#)); allowable costs ([Section 5.2](#)); eligibility ([Section 5.3](#)); matching, level of effort, earmarking ([Section 5.4](#)); and reporting ([Section 5.5](#)). This includes:

- As part of the testing of reporting, assessing the completeness and accuracy of the Reserve Supplemental Schedule ([Section 7.1.6](#)) and other supplemental information ([Section 7.1.7](#)) when the granting agency indicates that these reports are applicable to the provider's funding from the granting agency.
- As part of testing all five compliance areas, following-up on prior year audit findings, assessing the reasonableness of the Schedule of Prior Audit Findings ([Section 7.1.2](#)) prepared by the provider, and reporting as a current year finding when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

An agreed-upon procedures engagement provides approximately the same level of testing and assurance as would be achieved with a program audit ([Section 4.2](#)), but substantially less than an agency-wide audit ([Section 4.3](#)).

The report elements for an agreed-upon procedures engagement are listed in [Illustration 7.1](#) "Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits."

## 4.2 Program Audit

All program audits performed in accordance with the *Provider Agency Audit Guide* must be performed by a certified public accountant in accordance with the [generally accepted auditing standards](#) established by the American Institute of Certified Public Accountants for such audits, including consideration of fraud ([Chapter 6](#)). Program audits must also be in accordance with [Government Auditing Standards](#) and the standards in the *Guide*. A program audit is also one of the options under [OMB Circular A-133](#).

A program audit is similar to an agreed-upon procedures engagement, except that the provider hires the auditor and the program audit covers all of the department's programs that the provider has. A program audit includes the following procedures:

- *Financial Statements of the Program* -- Perform an audit of the financial statements of the program in accordance with generally accepted government auditing standards. The financial statements of the program are usually just the Schedule of Expenditures of Federal and State Awards ([Section 7.1.4](#)). However, they include the Incorporated Group Home/Child Caring Institution Supplemental Schedule ([Section 7.1.5](#)), the Reserve Supplemental Schedule ([Section 7.1.6](#)), and other supplemental information ([Section 7.1.7](#)) when applicable.
- *Program Level Testing* – Test compliance and internal controls over programs. These audit procedures shall include the procedures for activities allowed or unallowed ([Section 5.1](#)); allowable costs ([Section 5.2](#)); eligibility ([Section 5.3](#)); matching, level of effort, earmarking ([Section 5.4](#)); and reporting ([Section 5.5](#)).
- *Prior-Year Findings* -- Follow-up on prior year audit findings, perform procedures to assess the reasonableness of the Schedule of Prior Audit Findings ([Section 7.1.2](#)) prepared by the provider, and report as a current year finding when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

The report elements for a program audit are listed in [Illustration 7.1](#) “Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits.”

### 4.3 Agency-Wide Audit

All agency-wide audits performed in accordance with the *Provider Agency Audit Guide* must be performed by a certified public accountant in accordance with the [generally accepted auditing standards](#) established by the American Institute of Certified Public Accountants for such audits, including consideration of fraud ([Chapter 6](#)). Agency-wide audits must also be in accordance with [Government Auditing Standards](#) and the standards in the *Guide*. An agency-wide audit is also one of the options under [OMB Circular A-133](#).

An agency-wide audit includes the following:

- *Financial Statements of Agency* -- Determine whether the financial statements of the agency ([Section 7.1.1](#)) are presented fairly in all material respects in conformity with generally accepted accounting principles.
- *Supplemental Information* -- Determine whether supplemental information is presented fairly in all material respects in relation to the financial statements taken as a whole. The supplemental information includes the Schedule of Expenditures of Federal and State Awards ([Section 7.1.4](#)). It also includes the Incorporated Group Home/Child Caring Institution Supplemental Schedule ([Section 7.1.5](#)), the Reserve Supplemental Schedule ([Section 7.1.6](#)), and other supplemental information ([Section 7.1.7](#)) when applicable.
- *Program Level Testing* -- Test compliance and internal controls over selected program(s). These audit procedures shall include the procedures for activities allowed or unallowed ([Section 5.1](#)); allowable costs ([Section 5.2](#)); eligibility ([Section 5.3](#)); matching, level of effort, earmarking ([Section 5.4](#)); and reporting ([Section 5.5](#)).

The programs selected for program level testing shall comprise at minimum 25% of total department expenditures. Programs should be selected using a risk based approach. But, all programs should have program level testing at least once in any four-year period.

The process for identifying programs for program specific testing includes:

1. Multiply the total expenditures for all department programs by 25%. This is the minimum amount of department expenditures that must be covered by program specific testing in any one year.
  2. If the audit needs to be in accordance with OMB Circular A-133, determine major programs following A-133's risk-based approach.
  3. Apply the program risk factors from the *Guide* ([Section 2.2](#)) as they relate to the department programs that were not included in step #2. These factors include considering segregation of duties, related party transactions, and subcontracting.
  4. Select programs for program testing:
    - Department programs identified as major using A-133's criteria in step #2.
    - Department programs identified as high risk using the criteria in the *Guide* in step #3.
    - Department programs which have not had program specific testing at least once in the previous four years (phased in over a four-year period following adoption of the 1999 revision of the *Guide*).
    - Department programs needed to reach 25% minimum threshold for program testing for department programs.
- *Prior-Year Findings* -- Follow-up on prior year audit findings, perform procedures to

assess the reasonableness of the Schedule of Prior Audit Findings ([Section 7.1.2](#)) prepared by the provider, and report as a current year finding when the auditor concludes that the summary schedule of prior audit findings materially misrepresents the status of any prior audit finding.

The report elements for an agency-wide audit are listed in [Illustration 7.1](#) “Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits.”



## 5 Compliance requirements

This chapter describes audit procedures for auditing programs for an audit performed in accordance with the *Provider Agency Audit Guide*.

### ***Compliance requirements and OMB Circular A-133***

When the audit is subject to both the *Provider Agency Audit Guide* and [OMB Circular A-133](#), the auditor needs to consult the compliance requirements in this chapter and in [OMB's Compliance Supplement](#). The compliance requirements in this chapter are based in large part on the A-133 Compliance Supplement, so there is a lot of similarity between the two documents. However, the requirements in this chapter also cover issues specific to the department's financial assistance environment, and auditors must ensure that they consider department-specific issues in the audit.

### ***Applicability of this section***

In both an [agreed-upon procedures engagement](#) and a [program audit](#), the audit includes testing all program-level requirements that are applicable to the particular program(s) covered by the engagement or audit. In an [agency-wide audit](#), the audit includes testing program-level requirements for selected department programs. The process for selecting the programs to have program-level testing is in [Section 4.3](#). [Illustration 5.1](#) "Audit Procedures for Agreed-Upon Procedures Engagements, Program Audits, and Agency-Wide Audits" summarizes when particular audit procedures are applicable.

**Illustration 5.1 Audit Procedures for Agreed-Upon Procedures Engagements, Program Audits, and Agency-Wide Audits**

		Agreed-upon procedures	Program audit	Agency-wide audit
5.1	<a href="#">Activities allowed and unallowed</a>	Yes	Yes	For selected programs *
5.2	<a href="#">Allowable costs</a>	Yes	Yes	For selected programs *
5.3	<a href="#">Eligibility</a>	Yes	Yes	For selected programs *
5.4	<a href="#">Matching, level of effort, and earmarking</a>	Yes	Yes	For selected programs *
5.5	<a href="#">Reporting</a>	Yes	Yes	For selected programs *

\* Program level testing is done for selected programs in an agency-wide audit. See [Section 4.3](#) for guidance on selecting programs for program level testing in an agency-wide audit.

### ***Format of the requirements in this section***

Each of the compliance requirements covered in this section are in two parts:

*Compliance* covers the key compliance requirements for the program and suggested audit procedures. These compliance requirements differ from program to program. The auditor must review the laws, regulations, and provisions of contract and grant agreements to identify compliance requirements. An auditor should test these compliance requirements if he or she

concludes that the requirements apply to the auditee and that compliance with the requirements would have a material effect on a program. (Remember, materiality is set at a lower level for government programs than for the private sector due to visibility and sensitivity of government programs.)

*Internal Controls* covers the objectives of the internal controls for the particular compliance requirements and offers some examples of the characteristics of an internal control system that ensures the agency complies with these requirements. The internal control sections are not checklists of required internal control characteristics. Providers could have adequate internal controls even though some or all of the internal control characteristics listed in these sections are not present. In addition, providers could have other internal controls operating effectively that have not been included in these sections. Therefore, auditors need to use judgement in determining the best internal controls for a particular provider to provide a reasonable assurance of compliance with the program requirements.

The internal controls section are organized around the internal control components from “Internal Control – Integrated Framework” by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These components are: control environment, risk assessment, control activities, information and communication, and monitoring. The [OMB Compliance Supplement](#) has more information on COSO’s internal control framework as it is applied to financial assistance.

## **5.1 Activities allowed and unallowed**

The requirements for activities allowed or unallowed are unique to each department program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. In addition, the [OMB Compliance Supplement](#) has specific requirements for some federal programs, which may be useful when auditing those programs.

Examples of allowed and unallowed activities include:

*Services to be provided and the means for delivering them* – The contract specifies what the provider can do with the funding.

*Subcontracting* – The department's model contract requires that providers obtain written approval from the granting agency prior to subcontracting department funds, and it specifies that the provider retains all responsibility for fulfillment of the terms and conditions of its contract with the granting agency.

*Holding of resident funds* – Administrative rule for residential care providers (community based residential facilities, adult family homes, residential care apartment complexes, nursing homes, and facilities for the developmentally disabled) specify what providers can do when holding resident funds.

### **5.1.1 Compliance**

#### ***Compliance Requirement***

Department funds can only be used for allowable activities.

#### ***Suggested Audit Procedures***

- Determine whether the provider complied with the types of activities which are either specifically allowed or prohibited by the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.
- The auditor should be alert for large transfers of funds from program accounts which may have been used to fund unallowable activities.
- If the agency subcontracts department funds, determine whether the provider:
  - Obtained prior written approval from the granting agency for subcontracting department funds.
  - Ensured that the subcontractor complied with all of the terms and conditions of the contract.
  - Maintained an accurate and complete list of its subcontractors.
  - Followed the *Provider Agency Audit Guide* when deciding whether to require an audit and, if so, the kind of audit.
  - Performed the monitoring that it planned to rely on in lieu of requiring an audit.
  - Procured the subcontract through a process that is consistent with agency procurement policies and procedures.
  - Required financial, performance, program, and special reports, reviewed them in a

- timely manner, and took action when problems were noted.
  - Provided the subcontractor with information on the nature of funding (federal, state, local, mixture) so the subcontractor could have the appropriate audit.
  - Had an effective means of monitoring the subcontractor, including collecting and reviewing audit reports in a timely manner, and took action when problems were noted.
  - Segregated the duties of making grants, monitoring performance, and making payments.
  - Ensured that monitoring staff had skills to effectively monitor subcontracts.
  - Had a conflict of interest policy.
- If the provider holds resident funds (community based residential facilities, adult family homes, residential care apartment complexes, nursing homes, and facilities for the developmentally disabled), determine whether the provider:
- Had written authorization from the resident or the resident's guardian, agent, or designated representative to hold the resident's funds.
  - Segregated resident funds from the provider's funds.
  - Maintained written records of the resident's funds and provided reports of these funds to residents, guardians, agents, or designated representatives.

### **5.1.2 Internal control**

The objective of internal control for allowable activities is to provide reasonable assurance that department funds are expended only for allowable activities.

#### ***A. Control Environment***

- Management enforces appropriate penalties for misappropriation or misuse of funds.

#### ***B. Risk Assessment***

- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities can occur and not be detected.

#### ***C. Control Activities***

- Process in place for timely updating of procedures for changes in activities allowed.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining activities allowed.

#### ***D. Information and Communication***

- Establishment of internal and external communication channels on activities allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine activities allowed.
- Grant agreements (including referenced program laws, regulations, handbooks, etc.)

available to staff responsible for determining activities allowed under department awards.

***E. Monitoring***

- Flow of information from the department to appropriate management personnel.

## 5.2 Allowable costs

The auditor must test allowable costs if payments to the provider are made on or limited to an allowable cost basis (an example of the latter is reserves, [Section 7.1.6](#)) or if audited allowable costs are required to be in the audit report (an example is the group home/child caring institution supplemental schedule, [Section 7.1.5](#)).

Contracts involving department funds require that providers follow the [Allowable Cost Policy Manual](#) (ACPM). The ACPM incorporates the four sets of federal cost principles by reference. These principles are in [OMB Circular A-87](#) (for governments), [OMB Circular A-21](#) (for educational institutions), [OMB Circular A-122](#) (for non-profits), and [Contract Cost Principles and Procedures](#) (for for-profits). In addition, the ACPM includes guidance on cost items where state policy differs from or expands on the federal policy.

Requirements for allowable costs may also be found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. In addition, the [OMB Compliance Supplement](#) has specific requirements for some federal programs.

### 5.2.1 Compliance

#### A. Allowable Costs

##### *Compliance Requirement*

All costs charged to department programs must meet the criteria for allowability in the ACPM, in the applicable federal cost principles, and in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. Costs must meet these criteria whether they are charged directly to the program or indirectly through a cost allocation plan.

##### *Suggested Auditing Procedures*

Test a sample of transactions charged to department programs, whether directly or indirectly, to determine whether the costs are allowable, i.e.:

- The costs met the general criteria for allowability. In order to be allowable, the costs must:
  - Be necessary and reasonable for proper and efficient program administration and allocable thereto under these guidelines. A cost is *reasonable* if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. A cost is *allocable* to a program if the goods and services involved are chargeable or assignable to the program in proportion to the relative benefits received.
  - Be authorized by the agency administrator or funding agency and not prohibited by state or local laws.
  - Be in conformance with any limitations or exclusions set forth in the ACPM, federal or state laws, or other governing limitations as to types or amounts of cost items.
  - Be consistent with policies, regulations, and procedures that apply uniformly to both financially assisted activities and to other activities of the agency.
  - Be accorded consistent treatment. Consequently, a cost may not be assigned to a program as a direct cost if any other cost under the same circumstances has been charged to a program as an indirect cost.

- Be determined in accordance with generally accepted accounting principles or other accounting method appropriate to the circumstances.
  - Not be allocable to or included as a cost of any other federal, state, or other agency financed program in either the current or prior period.
  - Be net of all applicable credits.
  - Be supported by the agency's accounting records and be adequately documented.
- The costs met the requirements of the applicable federal cost principles:
    - [OMB Circular A-87](#) for State, local, or Indian tribal governments.
    - [OMB Circular A-122](#) for non-profit organizations.
    - [OMB Circular A-21](#) for educational institutions.
    - [Contract Cost Principles and Procedures](#) for for-profit organizations.
  - The costs met the criteria where state policy in the [Allowable Cost Policy Manual](#) differs from or expands on federal policy, such as “Profit for For-Profit Agencies Which Provide Client Care” and “Reserved Amount for Nonprofit Agencies Using A Prospectively Set Rate.”
  - The costs met the contract or other program specific guidance for provisions applicable to the particular grant/program.

## **B. Cost Allocation**

### *Compliance Requirement*

If indirect costs are charged to department programs, the provider must have a written cost allocation plan that meets the requirements for such a plan in the [Allowable Cost Policy Manual](#) and respective federal cost principles, and the provider must follow this plan.

### *Suggested Auditing Procedures*

If the agency charges indirect costs to department programs, determine whether

- The plan meets the requirements in *ACPM* and applicable federal cost principles. Characteristics of a plan that meets these requirements include:
  - The plan is in writing.
  - Costs are allocated to all programs or activities of the provider.
  - The basis for allocation is current and materially accurate, and it equitably measures the extent to which the cost actually benefits the program.
  - Costs are not allocated on the basis of funds available or revenues received.
  - The same costs are not charged both directly and indirectly to programs.
  - Total costs charged do not exceed actual costs incurred.
- The agency is followed the plan when charging indirect costs to department programs.

## **C. Related Party Transactions**

### *Compliance Requirement*

Audits performed in accordance with generally accepted auditing standards include procedures to identify related party transactions so that the required financial statement disclosures can be made. However, related party transactions that involve charges to financial assistance programs require further audit consideration.

All costs that are reimbursed in total or partially with any type of federal and/or state financial assistance (including costs associated with related party transactions) are reimbursable only if they meet the criteria of allowability (see [Section A](#), above). The fact that two parties in a transaction are related does not mean that the cost incurred is inappropriate or unallowable. It does mean however, that the auditor may have to do additional work in order to determine whether the related party transaction involves unallowable charges.

#### *Suggested Audit Procedures*

Determine whether the related party transactions involved costs that affect department programs. If they did, continue with the following procedures:

- Determine whether the cost incurred as the result of a related party transaction is allowable (see [Section A](#), above).
- Determine whether the provider followed procurement policies and practices that include maximum open and free competition and price and cost analysis to ensure that costs incurred are reasonable.
- If the related party transaction involves rent, determine whether the costs charges the department's programs are limited to the actual costs that would have been allowed had title to the property been vested with the provider.

#### **Related Party Transaction Disclosures**

Some providers have used related party transactions to circumvent the limitations on excess revenue and profit in the Allowable Cost Policy Manual. This has historically been a significant issue for department programs.

Generally accepted auditing standards require disclosure of related party transactions. When related party transactions do not affect department programs or do not include unallowable costs, we urge auditors to state this in the financial disclosure. Unallowable costs resulting from related party transactions must be reported as a finding.

### **5.2.2 Internal control**

The objective of internal controls for allowable costs is to provide reasonable assurance that department funds are expended only for allowable activities and that the costs of goods and services charged to department programs are allowable and in accordance with the applicable cost principles. Examples of characteristics of internal controls that accomplish this objective include:

#### **A. Control Environment**

- Management sets reasonable budgets for department funded programs and other programs so that no incentive exists to miscode expenditures.



- Management enforces appropriate penalties for misappropriation or misuse of funds.
- Organization-wide cognizance of need for separate identification of allowable costs.
- Management provides personnel approving and pre-auditing expenditures with a list of allowable and unallowable expenditures.

#### ***B. Risk Assessment***

- Process for assessing risks resulting from changes to cost accounting systems.
- Key manager has a sufficient understanding of staff, processes, and controls to identify where unallowable activities or costs could be charged to a department program and not be detected.

#### ***C. Control Activities***

- Accountability provided for charges and costs between department programs and other activities.
- Process in place for timely updating of procedures for changes in cost principles.
- Computations checked for accuracy.
- Supporting documentation compared to list of allowable and unallowable expenditures.
- Adjustments to unallowable costs made where appropriate and follow-up action taken to determine the cause.
- Adequate segregation of duties in review and authorization of costs.
- Accountability for authorization is fixed in an individual who is knowledgeable of the requirements for determining allowable costs.

#### ***D. Information and Communication***

- Reports, such as a comparison of budget to actual provided to appropriate management for review on a timely basis.
- Establishment of internal and external communication channels on activities and costs allowed.
- Training programs, both formal and informal, provide knowledge and skills necessary to determine costs allowed.
- Interaction between management and staff regarding questionable costs.
- Grant agreements (including referenced program laws, regulations, handbooks, etc.), the [\*Allowable Cost Policy Manual\*](#), and the [federal cost principles](#) are available to staff

responsible for determining allowable costs under department awards.

***E. Monitoring***

- Management reviews supporting documentation of allowable cost information.
- Flow of information from the department to appropriate management personnel.
- Comparisons made with budget and expectations of allowable costs.
- Analytic reviews (e.g., comparison of budget to actual or prior year to current year) and audits performed.

## **5.3 Eligibility**

The requirements for eligibility are unique to each department program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. In addition, the [OMB Compliance Supplement](#) has specific requirements for some federal programs.

### **5.3.1 Compliance**

#### ***A. Eligibility for Individuals***

##### *Compliance Requirement*

Only eligible individuals can participate in the program. Amounts or services provided to or on behalf of clients must be in accordance with program requirements.

##### *Suggested Audit Procedures*

- If a computer system for processing individual eligibility determinations and delivery of benefits, follow the guidance in generally accepted auditing standards for computer systems.
- Perform procedures to determine whether the provider's records/database includes all individuals receiving benefits during the audit period (e.g., that the population of individuals receiving benefits is complete).
- Select a sample of individuals receiving benefits and perform tests to determine whether the:
  - Provider performed the required eligibility determination, (including obtaining any required documentation/verifications) and the individual was determined to be eligible. Specific individuals were eligible in accordance with the compliance requirements of the program. (Note that some programs have both initial and continuing eligibility requirements and the auditor should design and perform appropriate tests for both.)
  - Benefits paid to or on behalf of the individuals were calculated correctly and in compliance with the requirements of the program.
  - Benefits were discontinued when the period of eligibility expired.

#### ***B. Eligibility for Group of Individuals or Area of Service Delivery***

##### *Compliance Requirement*

Only eligible groups of individuals or individuals in areas of service delivery can participate in the program. Amounts or services provided to or on behalf of clients must be in accordance with program requirements.

##### *Suggested Audit Procedures*

- In some cases, the provider may be required to perform procedures to determine whether a population or area of service delivery is eligible. Test information used in determining eligibility and determine whether the population or area of service delivery was eligible.
- Perform tests to determine whether:
  - The population or area served was eligible.

- The benefits paid to or on behalf of the individuals or area of service delivery were calculated correctly.

### ***C. Eligibility for Subcontractors***

#### ***Compliance Requirement***

Subawards of department funds can be made only to eligible providers and must be made in accordance with program requirements.

#### ***Suggested Audit Procedures***

- If the determination of eligibility is based upon an approved application or plan, obtain a copy of this document and identify the applicable eligibility requirements.
- Select a sample of the awards to subcontractors and perform procedures to verify that the subcontractors were eligible and amounts awarded were within funding limits.

(Additional guidance on auditing a provider's subcontractor monitoring function is in [Section 5.1.](#))

## **5.3.2 Internal control**

The objective of internal control for eligibility is to provide reasonable assurance that only eligible individuals and organizations receive assistance under department programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

### ***A. Control Environment***

- Staff size and competence provides for proper making of eligibility determinations.
- Realistic caseload/performance targets established for eligibility determinations.
- Lines of authority clear for determining eligibility.

### ***B. Risk Assessment***

- Identification of risk that eligibility information prepared internally or received from external sources could be incorrect.
- Conflict-of-interest statements are maintained for individuals who determine eligibility.
- Process for assessing risks resulting from changes to eligibility determination systems.

### ***C. Control Activities***

- Written policies provide direction for making and documenting eligibility determinations.
- Procedures to calculate eligibility amounts consistent with program requirements.

- Eligibility objectives and procedures clearly communicated to employees.
- Authorized signatures (manual or electronic) on eligibility documents periodically reviewed.
- Access to eligibility records limited to appropriate persons.
- Manual criteria checklists or automated process used in making eligibility determinations.
- Process for periodic eligibility re-determinations in accordance with program requirements.
- Verification of accuracy of information used in eligibility determinations.
- Procedures to ensure the accuracy and completeness of data used to determine eligibility requirements.

#### ***D. Information and Communication***

- Information system meets needs of eligibility decisionmakers and program management.
- Processing of eligibility information subject to edit checks and balancing procedures.
- Training programs inform employees of eligibility requirements.
- Channels of communication exist for people to report suspected eligibility improprieties.
- Management receptive to suggestions to strengthen eligibility determination process.
- Documentation of eligibility determinations in accordance with program requirements.

#### ***E. Monitoring***

- Periodic analytical reviews of eligibility determinations performed by management.
- Program quality control procedures performed.
- Periodic audits of detailed transactions.

## **5.4 Matching, level of effort, and earmarking**

The auditor must test matching, level of effort, or earmarking if the funding that the provider has from the department has these requirements. The requirements for matching, level of effort, and earmarking are unique to each program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. In addition, the [OMB Compliance Supplement](#) has specific requirements for some federal programs.

Matching, level of effort and earmarking are defined as follows:

*Matching* or cost sharing includes requirements to provide contributions of a specified amount or percentage to match program awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).

*Level of effort* includes requirements for (a) a specified level of service to be provided from period to period, (b) a specified level of expenditures from other sources for specified activities to be maintained from period to period, and (c) program funds to supplement and not supplant non-program funding of services.

*Earmarking* includes requirements that specify the minimum and/or maximum amount or percentage of the program's funding that must/may be used for specified activities, including funds provided to subrecipients. Earmarking may also be specified in relation to the types of participants covered.

### **5.4.1 Compliance**

#### **A. Matching**

##### *Compliance Requirement*

The provider must provide at least the minimum amount or percentage of contributions or matching funds.

##### *Suggested Auditing Procedures*

- Determine whether the required matching contributions were met. The matching contributions must be:
  - Verifiable from the provider's records.
  - Not included as contributions for any other project or program, unless specifically allowed by program laws and regulations
  - Necessary and reasonable for proper and efficient accomplishment of project or program objectives.
  - Allowed under the applicable cost principles ([Section 5.2](#)).
  - Provided for in the approved budget when required by the granting agency.
- Determine the sources of matching contributions and perform tests to verify that they were from an allowable source. In general,
  - State and local funds can be used to match federal funds.
  - Federal funds can not be used to match federal funds, except where authorized by the federal government to be allowable for cost sharing or matching.

- State funds can not be used to match state funds, except where authorized by the state to be allowable for cost sharing or matching.
- Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with the [Allowable Cost Policy Manual](#), the applicable [federal cost principles](#), the [OMB Circular A-102](#) Common Rule, [OMB Circular A-110](#), program regulations, and the terms of the award.

### ***B. Level of Effort - Maintenance of Effort***

#### ***Compliance Requirement***

The provider must maintain the specified service or expenditure levels.

#### ***Suggested Auditing Procedures***

- Identify the required level of effort and perform tests to verify that the level of effort requirement was met.
- Verify that only allowable categories of expenditures or other effort indicators (e.g., hours, number of people served) were included in the computation and that the categories were consistent from year to year. For example, in some programs, capital expenditures may not be included in the computation.
- Verify that the amounts used in the computation were derived from the books and records from which the audited financial statements were prepared.
- Verify that non-monetary effort indicators were supported by official records.

### ***C. Level of Effort - Supplement Not Supplant***

#### ***Compliance Requirement***

The provider must use program funds to supplement, and not supplant, non-program funding of services.

#### ***Suggested Auditing Procedures***

- Determine whether the provider used program funds to provide services which the provider was required to make available under federal, state, or local law and was also made available by funds subject to a supplement not supplant requirement.
- Determine whether the provider used program funds to provide services which were provided with non-program funds in the prior year.
  - Identify the department services.
  - Perform procedures to determine whether the program funded services that were previously provided with non-program funds.
  - Perform procedures to determine whether the total level of services applicable to the requirement increased in proportion to the level of program contribution.

#### ***D. Earmarking***

##### *Compliance Requirement*

The provider must meet minimum or maximum limits for specified purposes or types of participants.

##### *Suggested Auditing Procedures*

- Identify the applicable percentage or dollar requirements for earmarking.
- Perform procedures to verify that the amounts recorded in the financial records met the requirements (e.g., when a minimum amount is required to be spent for a specified type of service, perform procedures to verify that the financial records show that at least the minimum amount for this type of service was charged to the program; or, when the amount spent on a specified type of service may not exceed a maximum amount, perform procedures to verify that the financial records show no more than this maximum amount for the specified type of service was charged to the program).
- When earmarking requirements specify a minimum percentage or amount, select a sample of transactions supporting the specified amount or percentage and perform tests to verify proper classification to meet the minimum percentage or amount.
- When the earmarking requirements specify a maximum percentage or amount, review the financial records to identify transactions for the specified activity which were improperly classified in another account (e.g., if only 10 percent may be spent for administrative costs, review accounts for other than administrative costs to identify administrative costs which were improperly classified elsewhere and cause the maximum percentage or amount to be exceeded).
- When earmarking requirements prescribe the minimum number or percentage of specified types of participants that can be served, select a sample of participants that are counted toward meeting the minimum requirement and perform tests to verify that they were properly classified.
- When earmarking requirements prescribe the maximum number or percentage of specified types of participants that can be served, select a sample of other participants and perform tests to verify that they were not of the specified type.

#### **5.4.2 Internal control**

To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

##### ***A. Control Environment***

- Commitment from management to meet matching, level of effort, and earmarking requirements (e.g., adequate budget resources to meet a specified matching requirement or maintain a required level of effort).



- Budgeting process addresses/provides adequate resources to meet matching, level of effort, or earmarking goals.
- Official written policy exists outlining:
  - Responsibilities for determining required amounts or limits for matching, level of effort, or earmarking.
  - Methods of valuing matching requirements, e.g., "in-kind" contributions of property and services, calculations of levels of effort.
  - Allowable costs that may be claimed for matching, level of effort, or earmarking.
  - Methods of accounting for and documenting amounts used to calculate amounts claimed for matching, level of effort, or earmarking.

## ***B. Risk Assessment***

- Identification of areas where estimated values will be used for matching, level of effort, or earmarking.
- Management has sufficient understanding of the accounting system to identify potential recording problems.

## ***C. Control Activities***

- Evidence obtained such as a certification from the donor, or other procedures performed to identify whether matching contributions:
  - Are from acceptable sources (for example, match for federal programs are from non-federal sources), whether directly or indirectly.
  - Were used for another program.
- Adequate review of monthly cost reports and adjusting entries.

## ***D. Information and Communication***

- Accounting system capable of:
  - Separately accounting for data used to support matching, level of effort, or earmarking amounts or limits or calculations.
  - Ensuring that expenditures or expenses, refunds, and cash receipts or revenues are properly classified and recorded only once as to their effect on matching, level of effort, or earmarking.
  - Documenting the value of "in-kind" contributions of property or services, including:
    - Basis for local labor market rates for valuing volunteer services.
    - Payroll records or confirmation from other organizations for services provided by their employees.
    - Quotes, published prices, or independent appraisals used as the basis for donated equipment, supplies, land, buildings, or use of space.

### ***E. Monitoring***

- Supervisory review of matching, level of effort, or earmarking activities performed to assess the accuracy and allowability of transactions and determinations, e.g., at the time reports on department programs are prepared.

## 5.5 Reporting

The requirements for reporting are unique to each program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program. In addition, the [OMB Compliance Supplement](#) has specific requirements for some federal programs.

Reporting is generally in three categories:

*Financial reporting* – Many granting agencies require reporting of costs or activities as the basis for making payments to providers.

*Performance and program reporting* -- Many granting agencies require performance or program reporting. These reports generally contain the following information:

1. A comparison of actual accomplishments with the goals and objectives established for the period.
2. Reasons why established goals were not met, if appropriate.
3. Other pertinent information including, when appropriate, analysis and explanation of cost overruns or high unit costs.

*Special reporting* – Granting agencies may require other reports to meet their information needs. Some examples include the supplemental schedules in this guide: the “Incorporated Group Home and Child Caring Institution Supplemental Schedule” ([Section 7.1.5](#)), the “Reserve Supplemental Schedule” ([Section 7.1.6](#)), and the “Other Supplemental Schedules Required by Granting Agencies” ([Section 7.1.7](#)).

### 5.5.1 Compliance

#### *Compliance Requirements*

The provider’s reports to the granting agency must be timely, complete, accurate, and supported by the provider’s records.

#### *Suggested Audit Procedures*

- Review applicable laws, regulations, and the provisions of contract or grant agreements pertaining to the program for reporting requirements. Determine the types and frequency of required reports. Obtain and review granting agency’s instructions for completing the reports.
- Perform appropriate analytical procedures and determine the reason for any unexpected differences. Examples of analytical procedures include:
  - Comparing current period reports to prior period reports.
  - Comparing anticipated results to the data included in the reports.
  - Comparing information obtained during the audit of the financial statements to the reports. The results of the analytical procedures should be considered in determining the nature, timing, and extent of the other audit procedures for reporting.
- Select a sample of financial reports and
  - Determine whether the financial reports were prepared in accordance with the required

accounting basis.

- Determine whether reported costs were allowable ([Section 5.2](#)).
  - Trace the amounts reported to accounting records that support the audited financial statements and the schedule of expenditures of Federal and State awards and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.
  - When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
  - Test mathematical accuracy of reports and supporting worksheets.
  - Review accounting records and determine whether all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on department funds, and reserve funds).
  - Determine whether the provider performed timely and accurate reconciliation of reported expenses and activity for reimbursement to its official accounting records to identify any expenses or activity that were not reported or not reimbursed.
- Select a sample of performance, program, and special reports and
- Trace the data to records that accumulate and summarize data.
  - Perform tests of the underlying data to verify that the data were accumulated and summarized in accordance with the required or stated criteria and methodology, including the accuracy and completeness of the reports.
  - When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.
  - Test mathematical accuracy of reports and supporting worksheets.
  - Review the supporting records and determine whether all applicable data elements were included in the sampled reports.

### **5.5.2 Internal control**

The objective of internal controls for reporting is to provide reasonable assurance that reports submitted to the granting agency for department programs include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

#### ***A. Control Environment***

- Persons preparing, reviewing, and approving the reports possess the required knowledge, skills, and abilities.
- Management's attitude toward reporting promotes accurate and fair presentation.
- Appropriate assignment of responsibility and delegation of authority for reporting decisions.

#### ***B. Risk Management***

- Mechanisms exist to identify risks of faulty reporting caused by such items as lack of

current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of department awards.

- Identification of underlying source data or analysis for performance or special reporting that may not be reliable.

#### ***C. Control Activities***

- Written policy exists that establishes responsibility and provides the procedures for periodic monitoring, verification, and reporting of program progress and accomplishments.
- Tracking system which reminds staff when reports are due.
- The general ledger or other reliable records are the basis for the reports.
- Supervisory review of reports performed to assure accuracy and completeness of data and information included in the reports.
- The required accounting method is used (e.g., cash or accrual).

#### ***D. Information and Communication***

- An accounting or information system that provides for the reliable processing of financial and performance information for department awards.

#### ***E. Monitoring***

- Communications from external parties corroborate information included in the reports for department awards.
- Periodic comparison of reports to supporting records.

## 6 Fraud

All audits performed under the *Provider Agency Audit Guide* need to be performed in accordance with [generally accepted auditing standards](#), including consideration of fraud.

### 6.1 Definition of fraud

Fraud is getting something of value under false pretences. Examples of fraud involving financial assistance include:

- A caseworker enrolling his or her family members in government programs so they receive benefits that they are not eligible for.
- An agency reporting false financial or performance information to improve the likelihood that the funding agency will renew the contract.
- An agency knowingly reporting unallowable expenses for reimbursement from grants.

In each of these examples, someone was injured: an eligible person who didn't services because slots were filled with ineligible people, an agency that didn't get a contract it was qualified for because the contract went to an agency that cheated, and the funding agency that paid more for services than it should have.

Fraud involving government funding also violates the public trust. So, in addition to each individually identifiable victim, another victim is the public as a whole.

Key factors in fraud are the pressure or incentive to commit fraud and the perceived opportunity to do so, and the risk of fraud is much higher when these factors are present. The incentive could be personal (money for oneself or for one's family) or organizational (the agency needing to lay off staff if it loses its government contract). The opportunity could be weakness in internal controls or the belief that the internal controls can be circumvented.

### 6.2 Management's responsibility

Agency management is responsible for preventing and detecting fraud. Management sets the "tone at the top," the overall attitude that deters fraud. The risk of fraud is generally lower when management ensures that the agency has a sound system of internal controls. Correspondingly, the risk is greater when management conveys the attitude that internal controls are not important.

When fraud is discovered, management is also responsible for reporting the fraud to the granting agency and for taking timely and appropriate action to remedy the fraud.

### 6.3 Auditor's responsibility

The *Provider Agency Audit Guide* requires consideration of fraud in the administration of department programs as part of every audit performed in accordance with the *Guide* ([Sections 4.1](#),

4.2, and 4.3). In addition, auditors have a responsibility to detect material misstatements of the financial statements, whether caused by error or by fraud. A recent guide, SAS No. 82 *Consideration of Fraud in a Financial Statement Audit*, clarifies the auditor's responsibilities and requires the auditor to specifically address the risk of material misstatement of the financial statements due to fraud as a part of every audit. SOP 98-3 *Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards* addresses the application of SAS No. 82 to single audits (i.e. audits in accordance with OMB Circular A-133). According to the SOP, "When the auditor is identifying risk factors and other conditions in an audit of financial statements performed in conjunction with a single audit, the auditor's responsibilities under SAS No. 82 are expanded to include (in addition to the risk factors normally associated with financial statements) the consideration of risk factors associated with the receipt of federal awards that could present a material misstatement of the financial statements."

### 6.3.1 Reasonable assurance and materiality

The auditor is expected to obtain reasonable assurance that material misstatements resulting from fraud are detected during the audit. Two things need emphasis: First, the auditor obtains *reasonable assurance*, because absolute assurance is nearly impossible. Fraud often involves collusion or falsified documentation that can be very difficult to detect. In addition, auditors must use judgement when identifying and evaluating risk factors.

Second, a special consideration for audits involving government funds is a lower level of *materiality*. Agencies who receive government financial assistance have an obligation to honor the public trust. The public trust demands that agencies follow the very highest standards when using public funds. For these reasons, the department considers all fraud to be material and requires that the provider report all fraud to the granting agency. So, while the auditor is expected to obtain reasonable assurance that material misstatements resulting from fraud are detected, the auditor is also responsible for ensuring that *any* fraud that the auditor is aware of has been reported to the granting agency.

### 6.3.2 Fraud risk factors

A risk of material misstatements due to fraud is always present to some degree. Auditors should specifically assess the risk of material misstatement of the financial statements due to fraud and consider that assessment in designing the audit procedures to be performed. As part of that risk assessment, the auditor should make inquiries to management to 1) obtain management's understanding of the risk for fraud in the agency and 2) determine whether management has knowledge of fraud that has been perpetrated on or within the agency.

SAS No. 82 identifies two types of fraud: misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. It lists examples of fraud risk factors across the two types of fraud that the auditor should consider as part of the audit. Some of the risk factors that are especially relevant in a financial assistance environment are:

- Motivation for management to engage in fraudulent financial reporting.
- Failure by management to display and communicate an appropriate attitude regarding internal control and the financial reporting process. Some specific indicators include:

- Domination of management by a single person or small group without compensating controls such as effective oversight by the board of directors.
  - Inadequate monitoring of internal controls.
  - Management failing to correct known reportable conditions on a timely basis.
  - Management setting unduly aggressive financial targets and expectations for operating personnel.
  - Management displaying a significant disregard for regulatory authorities.
  - Management continuing to employ an ineffective accounting, information technology, or internal audit staff.
- High turnover of senior management, counsel, or board members.
  - Strained relationship between management and the current or predecessor auditor.
  - New accounting, statutory, or regulatory requirements that could impair the financial stability or profitability of the entity.
  - Rapid changes in the industry.
  - Significant related party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.
  - Significant, unusual, or highly complex transactions, especially those close to year end, that pose difficult “substance over form” questions.
  - Unusually rapid growth or profitability, especially compared with that of other companies in the same industry.
  - Unusually high dependence on debt or marginal ability to meet debt repayment requirements; debt covenants that are difficult to maintain.
  - Threat of imminent bankruptcy or foreclosure.
  - Adverse consequences on significant pending transactions, such as a business combination or contract award, if poor financial results are reported.

### **6.3.3 Audit procedures**

The auditor decides whether the planned audit procedures are adequate to address the fraud risk identified. If they are, no additional audit procedures are needed. If they are not, the auditor should consider modifying the nature, timing or extent of audit procedures.

If the auditor determines that there is a misstatement that is, or may be, the result of fraud, the auditor should

- Consider the implications for other aspects of the audit.
- Discuss the matter and the approach for further investigation with an appropriate level of



management.

- Attempt to obtain additional evidence to determine whether material fraud occurred or is likely to have occurred, and if so, the effect on the financial statements and the opinion.
- If appropriate, suggest that management consult legal counsel.

## **6.4 Reporting fraud to management**

When the auditor determines that evidence of fraud may exist, the auditor should discuss it with the appropriate level of management. Fraud involving senior management or fraud that causes a material misstatement of the financial statements should be reported to the audit committee.

## **6.5 Reporting fraud to granting agency**

Both the provider and the auditor have responsibility for reporting fraud to the granting agency.

### **6.5.1 The provider's reporting responsibilities**

The provider is required to report all fraud to the granting agency. The notification should be made by letter as soon as possible after the discovery of the fraud. The letter should include information answering the following questions:

- Who was involved in the fraud?
- What happened?
- When did the fraud happen?
- How did the provider learn of the fraud?
- Did the fraud involve department funds, either directly or indirectly? (I.e. did the people involved in the fraud have duties related to department funding, whether or not the fraud itself involved department funding? Were the controls that were circumvented in the fraud also used for department funding?)
- What has the provider done in reaction to the fraud?

### **6.5.2 The auditor's reporting responsibilities**

Auditors are responsible for reporting fraud to the granting agency in two situations:

- If the provider has not reported the fraud to the granting agency, the auditor should:
  - Inform the provider that the provider needs to report the fraud to the granting agency in writing, with a copy to the auditor so the auditor knows the provider has informed the granting agency.
  - If the provider does not report to the granting agency, the auditor should report the fraud to the granting agency.

- If the provider has not taken timely and appropriate steps to remedy the fraud, the auditor should report that failure to the granting agency.

The auditor should follow guidance in [generally accepted auditing standards](#) and [Government Auditing Standards](#) for determining when fraud needs to be reported in the audit report.

## 7 The audit report

Audit reports for agreed-upon procedures engagements, program audits, and agency-wide audits performed in accordance with the *Provider Agency Audit Guide* must include certain report elements. [Illustration 7.1](#) “Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits” shows the report elements and their applicability to the particular type of engagement. Each of these reporting elements are described in this chapter.

The reporting requirements are consistent with those of [OMB Circular A-133](#) “Audits of States, Local Governments, and Non-Profit Organizations” whenever possible. Since many of the agencies that receive department funding need to have audits in accordance with A-133, this reduces the potential for conflict between the two sets of reporting requirements. It also means that the literature and guidance on A-133 reporting will be useful for reporting in accordance with the requirements of this *Guide*.

### ***Tips on Preparing the Audit Report.....***



#### ***Titles of the Report Elements***

The federal government has indicated that the title “Schedule of Findings and Questioned Costs” should only be used for audits performed in accordance with OMB Circular A-133. There may be similar restrictions for other report elements. For audits performed in accordance with this *Guide*, the *title* of the report element is not as important as the *content*. Auditors may change the titles of any of the report elements as necessary to prevent potential confusion on which elements are required by A-133 and which are required by or modified by this guide.



#### ***The Report vs. the Reporting Package***

The report elements required by this chapter may be bound into the report itself or issued separately and included as part of the reporting packages sent to granting agencies.



#### ***Personally Identifiable Information***

Audit reports involving department funds are public records. To protect confidentiality, personally identifiable information, such as names, addresses, and social security numbers, should not be included in the audit report.

**Illustration 7.1 Audit Report Elements for Agreed-Upon  
Procedures, Program Audits, and Agency-Wide Audits**

		<u>Agreed-upon procedures</u>	<u>Program audit</u>	<u>Agency-wide audit</u>
<b>7.1</b>	<b><u>Report Elements Prepared by the Provider:</u></b>			
7.1.1	<u>Financial Statements of the Overall Agency</u>	No	No	Yes
7.1.2	<u>Schedule of Prior Year Findings</u>	Yes	Yes	Yes
7.1.3	<u>Corrective Action Plan</u>	Yes	Yes	Yes
7.1.4	<u>Schedule of Expenditures of Federal and State Awards</u>	No	Yes	Yes
7.1.5	<u>Incorporated Group Home and Child Caring Institution Supplemental Schedule</u>	No (program or agency-wide audit is required)	Yes	Yes
7.1.6	<u>Reserve Supplemental Schedule</u>	Yes	Yes	Yes
7.1.7	<u>Other Supplemental Schedules Required by Granting Agencies</u>	Yes	Yes	Yes
<b>7.2</b>	<b><u>Report Elements Prepared by the Auditor:</u></b>			
7.2.1	<u>Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards</u>	No	No	Yes
7.2.2	<u>Opinion on the Financial Statement of a Program in Accordance with the Program Audit</u>	No	Yes	No
7.2.3	<u>Report on Results of Agreed-upon Procedures Engagement</u>	Yes	No	No
7.2.4	<u>Report on Compliance with Requirements Applicable to the Program and on Internal Control Over Compliance Performed in Accordance with the Program Audit</u>	No	Yes	No
7.2.5	<u>Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards and the Provider Agency Audit Guide</u>	No	No	Yes
7.2.6	<u>Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133</u>	No	Yes, if audit is also in accordance with A-133	Yes, if audit is also in accordance with A-133
7.2.7	<u>Schedule of Findings and Questioned Costs</u>	Yes, if the findings are not in the "Report on Results of Agreed-upon Procedures Engagement"	Yes	Yes

Note: The Management Letter (or similar document conveying auditor's comments) is not a required report element. However, if the auditor issued a Management Letter, a copy must be included with the report materials sent to the granting agency. If there was no Management Letter, the report materials must include assurance that a Management Letter was not issued (this assurance is in the "Schedule of Findings and Questioned Costs" ([Section 7.2.7](#))).

## **7.1 Report elements prepared by the provider**

The provider is responsible for preparing report elements that convey information on the provider's organization and administration of department programs. The auditor's responsibility is to assess and report on the reliability of the information in the provider's reports ([Section 7.2](#)).

The report elements that are applicable to a particular provider depend on the circumstances of the provider and the type of audit being performed ([Illustration 7.1](#) "Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits").

### 7.1.1 Financial Statements of the Overall Agency

Applicability	
Agreed-Upon Procedures	No
Program Audit	No
Agency-Wide Audit	Yes

The audit report for an agency-wide audit shall include agency-wide financial statements. These financial statements shall be in conformance with generally accepted accounting principles (GAAP) applicable to the type of agency.

**Functional Revenue and Expenses** -- When GAAP requires a Statement of Functional Expenses, the statement should be expanded to include functional revenues. When the provider prefers not to modify the GAAP financial statement or when GAAP does not require a Statement of Functional Expenses, the audit report should include a supplemental schedule showing revenue and expenses by function:

**Example Agency**  
Schedule of Functional Revenue and Expenses  
For the Year Ended December 31, 19XX

	Function	Function	Function	Total
Revenue:				
Contract A				
Contract B				
Total Revenue				
Expenses				
Expense				
Expense				
Total Expenses				
Increase (decrease) in net assets				

### 7.1.2 Schedule of Prior Year Findings

<b>Applicability</b>	
Agreed-Upon Procedures	Yes
Program Audit	Yes
Agency-Wide Audit	Yes

The audit report must include a “Schedule of Prior Year Findings” showing the status of prior year findings related to the department’s funding. This schedule is prepared by the agency.

If there were no prior year findings, the schedule should state so. If there were prior year findings, the schedule must include the following information:

- The reference numbers the auditor assigned to the findings (i.e. 99-1, 99-2, etc.).
- The status of each finding:
  - If the finding has been corrected, the schedule need only list the finding and state that corrective action was taken.
  - If the finding has not been corrected or was only partially corrected, the schedule shall describe the planned corrective action as well as any partial corrective action taken.
  - If the corrective action taken is significantly different from corrective action previously reported in a corrective action plan or in the granting agency’s management decision, the schedule shall provide an explanation.
  - If the provider believes the finding is no longer valid or do not warrant further action, the reasons for this position shall be described in the schedule.

The auditor needs to follow up on prior year findings as part of the current year audit. As part of this follow-up, the auditor needs to assess the reasonableness of the agency’s “Schedule of Prior Year Findings” and report a finding in the current year audit if the schedule materially misrepresents the status of the prior year findings.

### 7.1.3 Corrective Action Plan

Applicability	
Agreed-Upon Procedures	Yes
Program Audit	Yes
Agency-Wide Audit	Yes

The audit report must include a “Corrective Action Plan” for all audit findings related to the department’s funding. The “Corrective Action Plan” is prepared by the agency, and it must include the following information:

- The name of the contact person responsible for corrective action,
- The planned corrective action, and
- The anticipated completion date.

If the auditee does not agree with the audit findings or believes corrective action is not required, then the “Corrective Action Plan” shall include an explanation and specific reasons.



#### 7.1.4 Schedule of Expenditures of Federal and State Awards

Applicability	
Agreed-Upon Procedures	No
Program Audit	Yes
Agency-Wide Audit	Yes

Audit reports for program and agency-wide audits must include a “Schedule of Expenditures of Federal and State Awards.” This schedule is prepared by the agency.

For program audits, the schedule is usually the financial statement of the program, and it must be covered by the auditor’s “Opinion on the Financial Statement of a Program in Accordance with the Program Audit” ([Section 7.2.2](#)), which states the auditor’s opinion on whether the schedule “presents fairly, in all material respects, the expenditures of federal and state awards.” For agency-wide audits, the schedule must be covered by the auditor’s “Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards” ([Section 7.2.1](#)), which states the auditor’s opinion on whether the information in the schedule is “fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.”

##### ***Content of the Schedule of Expenditures of Federal and State Awards***

The “Schedule of Expenditures of Federal and State Awards” must include the following information for department programs:

- Name of the program,
- Name of federal agency (if the program is federally funded) or the name of the state agency (if the program is state funded),
- The program’s CFDA number (if the program is federally funded) or State ID number (if the program is state funded),
- Name of pass-through grantor, if applicable,
- The pass-through grantor’s identifying number for the funding, if applicable,
- Federal share and state share,
- Amount expended for the program, and
- If the agency subgranted or subcontracted department funding, the footnotes to the schedule must include the following information on subgrants and subcontracts:
  - the names of the programs used for these awards,
  - the names of providers who received the funding, and
  - the amount paid to each of these providers.

This requirement adopts and builds on OMB Circular A-133’s requirement to disclose the

amount of federal funds provided to subrecipients. However, this requirement is applicable to payments made to providers, not just subrecipients, as is the case with A-133.

[Illustration 7.2](#) “Schedule of Expenditures of Federal and State Awards” includes an example of a schedule for a hypothetical provider. Providers can use other formats for this schedule that include all of the information listed above.

#### ***Determining the Source of Financial Assistance***

The granting agency needs to supply the provider with information on the source of the funding the provider agency receives from the granting agency. The granting agency can provide this information in a variety of ways, such as in the contract document, separate notification, or in response to requests for funding information from the provider agency.

The department prepares annual listings of funding sources for their programs, which are available on the respective websites or by phone ([Section 10.1](#)).

#### ***Commingled Federal, State, and Local Funds***

The department’s programs that providers receive are often funded with a mixture of federal and state funding. Preferably, the federal and state shares will be presented separately in the “Schedule of Expenditures of Federal and State Awards,” and the department provides information on the respective shares so that this separate presentation can be made. However, agencies who subgrant department funds often add their own funds to the awards. As a result, it can be very difficult to sort out the federal, state, and local shares for presentation in the schedule.

The AICPA’s Statement of Position 98-3 “Audits of States, Local Governments, and Non-for-Profit Organizations Receiving Federal Awards,” paragraph 5.12, provides the following guidance on presenting commingled federal, state, and local funds in a “Schedule of Federal Awards”:

The individual sources (that is, federal, state, and local) of federal awards may not be separately identifiable because of the commingled assistance from different levels of government. If the commingled portion cannot be separated to specifically identify the individual funding sources, the total amount should be included in the schedule, with a footnote describing the commingled nature of the funds.

## Illustration 7.2 Schedule of Expenditures of Federal and State Awards

### Example Agency Schedule of Expenditures of Federal and State Awards<sup>1</sup> For the Year Ended June 30 19X1

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number <sup>2</sup>	Federal Expenditures
U.S. Department of Agriculture: Pass-Through Program From: Wisconsin Department of Health and Family Services			
Special Supplemental Food \$350,000	10.557	147071, 147080	
Program for Women, Infants, And Children		& 147156	(Note B) <sup>3</sup>
Total Expenditures of Federal Awards			<u>\$350,000</u>
State Grantor/Program Expenditures		State Identifying Number	State
Wisconsin Department of Health and Family Services:			
GPR Childhood Lead	na	177010	\$85,000
GPR Lead Poisoning	na	177020	<u>\$15,000</u>
Total Expenditures of State Awards			<u>\$100,000</u>

The accompanying notes are an integral part of this schedule.

---

1 Additional formats for this schedule are available in the AICPA's Statement of Position 98-3 "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards." Also, some provider prefer other formats for the schedule to better suit their circumstances and the information needs of their report users. Providers can use other formats if they include the elements for this schedule that are listed in [Section 7.1.4](#).

2 Use the Community Aids Reporting System (CARS) profile number, purchase order number, or contract number for the Pass-Through Entity Identifying Number and the State Identifying Number.

3 When federal, state, and local funds are commingled, if the commingled portion cannot be separated to specifically identify the individual funding sources, the total amount should be included in the schedule, with a note describing the commingled nature of the funds.

## Illustration 7.2 Schedule of Expenditures of Federal and State Awards, continued

### Example Agency Notes to the Schedule of Expenditures of Federal and State Awards For the Year Ended June 30 19X1

#### Note A. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards include the federal and state grant activity of Example Agency and is presented on the [*identify basis of accounting*]. The information in this schedule is presented in accordance with the requirements of the *Provider Agency Audit Guide*.<sup>1</sup> Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the [*general-purpose or basic*] financial statements.

#### Note B. Commingled Federal and State Funds<sup>2</sup>

The federal expenditures shown include commingled federal and state funds.

#### Note C. Providers<sup>3</sup>

Of the expenditures presented in the schedule, Example Agency made the following awards to providers:

Program Title	Federal CFDA Number	Amount Awarded to Providers
Special Supplemental Food Program for Women, Infants, and Children	10.557	
Provider Agency A		\$ 50,000
Provider Agency B		\$ 50,000
Total awarded for Special Food Program for Women, Infants, and Children		\$100,000

<sup>1</sup> Include a reference to OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations if the audit was in accordance with A-133.

<sup>2</sup> When federal, state, and local funds are commingled, if the commingled portion cannot be separated to specifically identify the individual funding sources, the total amount should be included in the schedule, with a note describing the commingled nature of the funds.

<sup>3</sup> [Section 7.1.4](#) adopts and builds on OMB Circular A-133's requirement to disclose the amount of federal funds provided to subrecipients. If the agency subgranted or subcontracted department funding, the footnotes to the schedule must include the following information on subgrants and subcontracts for all providers (not just subrecipient):

- the names of the programs used for these awards,
- the names of providers which the funding, and
- the amount paid to each of these providers.

### 7.1.5 Incorporated Group Home/Child Caring Institution Supplemental Schedule

Applicability	
Agreed-Upon Procedures	No (program or agency-wide audit is required)
Program Audit	Yes
Agency-Wide Audit	Yes

This requirement is applicable only to group home (see sidebar) and child caring institution facilities that are licensed by the Department of Health and Family Services under ch. HSS 57 Group Foster Care for Children or ch. HSS 52 Child Caring Institutions, respectively. An "Incorporated Group Home/Child Caring Institution Supplemental Schedule" is required for each incorporated group home and/or child caring institution facility operated by the agency. The Department of Health and Family Services uses the information in the schedule on the facility's costs to claim funding from the Federal government to support the State's cost of out of home care for children, and a copy of the audit must be sent to the department for that purpose.

The "Incorporated Group Home/Child Caring Institution Supplemental Schedule" must be covered by the auditor's "Opinion on the Financial Statement of a Program in Accordance with the Program Audit" ([Section 7.2.2](#)), which states the auditor's opinion on whether the schedule is fairly presented in all material respects. For agency-wide audits, the schedule must be covered by the auditor's "Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards" ([Section 7.2.1](#)), which states the auditor's opinion on whether the information in the schedule is "fairly stated, in all material respects, in relation to the basic financial statements taken as a whole."

If the agency is allowed to retain a reserve, this schedule may be combined with the "Reserves Supplemental Schedule" ([Section 7.1.6](#)).

An example of the schedule and instructions for completing the schedule are in [Illustration 7.3](#) "Incorporated Group Home/Child Caring Institution Supplemental Schedule."

#### Meaning of "Group Home"

The term "group home" is commonly used for several different kinds of facilities, such as facilities that provide group foster care for children, community-based residential facilities, adult family homes, and shelter care facilities. The requirements in this section are applicable only to those group homes that are licensed under the group foster care rules in ch. HSS 57 to provide group foster care for children.

*Provider Agency Audit Guide*  
*DRAFT 12/10/98*

7-12

### Period covered by the audit

### Period covered by the audit

- [illegible]

**Illustration 7.3 Incorporated Group Home/Child Caring  
Institution Supplemental Schedule, Continued**

**Instructions for Preparing the Schedule**

**Parent Organization** -- Enter the name of the parent organization (the entity being audited).

**Facility** -- Enter the name of the facility. Note that a separate schedule is needed for each rate-based service operated by the agency/facility.

**HSRS Provider No.** -- Enter the facility's HSRS provider number, which the Department of Health and Family Services uses to prevent errors in identifying facilities. The HSRS provider number can be obtained from the HSRS SOS Desk by calling (608) 266-9198.

**Period Covered by the Audit** -- Enter the period covered by the audit.

1. **Total Days of Care** -- Enter the total number of days of care provided by the facility for rate-based service during the period.
2. **Expenses for Rate-Based Service** -- Expenses for rate-based services are allowable expenses for the care and treatment of children that are not offset by another source of revenue, such as commodities or donated services. In order to maximize the use of Federal funds, all allowable expenses for the facility's rate-based service function need to be allocated to one of three categories: expenses allowable for reimbursement from the Foster Care IV-E program, expenses allowable for reimbursement from the Title XIX program, and other allowable expenses. Guidance on allowability and allocation of costs can be found in the *Allowable Cost Policy Manual*. In addition, Foster Care IV-E and Title XIX have program-specific conditions that must be met, which are described in sections 2a and 2b. Any questions concerning the allowability of costs or their distribution into the three categories can be referred to the Division of Children and Family Services at (608) 266-3728.

**2a. Expenses Allowable for Reimbursement from the Foster Care IV-E Program --**

Enter the total expenses for the period which are allowable for reimbursement from the Federal Foster Care IV-E program for the care of children. These costs include the cost of (and the cost of providing) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to the child, reasonable travel to a child's home for visitation, and reasonable costs of administration and operation of the facility as necessary for providing these services to the child.

**2b. Expenses Allowable for Reimbursement from the XIX Program --** Some child caring institution facilities provide mental health services for children in their care. If these facilities meet the requirements of Wisconsin Administrative Code Chapter HSS 101-108 (the Medical Assistance "Super Rule," on line at <http://www.legis.state.wi.us/rsb/>), the Department of Health and Family Services can claim costs from the Title XIX program for the following services:

- **Psychiatric Services** -- Psychiatric services may include individual or group therapy, consultation with staff, diagnostic interview with children, and work with parents.
- **Psychological Services** -- Psychological services may include individual or group therapy, consultation with staff, administering and interpreting psychological tests, and work with parents.

**Illustration 7.3 Incorporated Group Home/Child Caring  
Institution Supplemental Schedule, Continued**

- **Psychotherapy** -- Psychotherapy services may include individual or group therapy provided by the agency's MSW's and administered as part of a prescribed treatment plan in accordance with Department of Health and Family Services rules and policies governing reimbursable therapy.

Include only the portion of salary, fringe benefits, and other costs that relate to Title XIX services. Psychiatric and psychological services must meet the criteria of HSS 105.22 and 107.13 in order to be included in this category.

Enter \$0 if the agency does not provide mental health services or if the services provided do not meet the requirements of HSS 101-108. The cost of services that do not meet these criteria should be included in the "Other Allowable Expenses" category.

**2c. Other Allowable Expenses** -- The remaining allowable expenses are reimbursed from State and/or County funds. Enter all allowable expenses for providing care of children and for treatment that were not included in either line 2a or line 2b. In addition, the costs of such services as on-site education, agency-sponsored recreation, special institution services, social services, and reasonable costs of administration and operation of the facility necessary for providing these services to the child can be included in this category.

**2d. Total Allowable Expenses for Rate-Based Service** -- Enter the total for lines 2a, 2b, and 2c.

**Lines 3 through 6 are applicable only if the agency maintains a reserve that is funded with rate-based revenue. See the instructions for the "Reserve Supplemental Schedule" for guidance on preparing this part of the schedule.**

**If help is needed with....**

Determining the HSRS provider number

Determining the allowability of costs or how they should be presented in the schedule

Understanding the purchasing agency's reserve requirements

Other issues

**Call....**

HSRS SOS Desk at (608) 266-9198

Division of Children and Family Services, at (608) 266-3728

Purchasing agency

Office of Program Review and Audit at (608) 266-2924



### 7.1.6 Reserve Supplemental Schedule

Applicability	
Agreed-Upon Procedures	Yes
Program Audit	Yes
Agency-Wide Audit	Yes

Wisconsin Statutes allow a provider to maintain a reserve funded by department programs when revenue exceeds allowable expenses if:

- 1) The agency is non-profit, nonstock corporation organized under Wisconsin Statute 181.
- 2) The agency provides client services on the basis of a unit rate per client service.

The statute limits the amount that can be retained with a two-part test. The first test limits the amount that can be retained in any one year to 5% of the contract amount, i.e. the amount paid under the terms of the contract. The second test limits accumulated reserves for all years to 10% of the amount paid under the current contract. Excess revenues that exceed these two tests need to be returned to the granting agency.

Granting agencies may choose to set lower thresholds or to not allow their funds to be used for reserves.

If the provider maintains a reserve that is funded with department funding, the audit report must include a schedule showing, for each granting agency:

- 1) The amount retained under the first test,
- 2) The amount retained under the second test, and
- 3) The amount of revenue in excess of the amount that can be retained under the first and second tests

In an agreed-upon procedures engagement, the auditor reports on reserves in the “Report on the Results of an Agreed-upon Procedures Engagement” ([Section 7.2.3](#)) if the granting specifies that the engagement covers reserves. For program audits, the "Reserve Supplemental Schedule" must be covered by the auditor's “Opinion on the Financial Statement of a Program in Accordance with the Program Audit” ([Section 7.2.2](#)), which states the auditor's opinion on whether the schedule is fairly presented in all material respects. For agency-wide audits, the schedule must be covered by the auditor's “Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards” ([Section 7.2.1](#)), which states the auditor's opinion on whether the information in the schedule is “fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.”

[Illustration 7.4](#) “Reserve Supplemental Schedule” provides an example of the schedule and instructions for preparing the schedule. This format is to be used unless the purchasing agency specifies an alternate format.

*Provider Agency Audit Guide*  
*DRAFT 12/10/98*

## 7-16

### Period covered by the audit

### Period covered by the audit

1. Total units of service
2. Allowable expenses for rate-based service
3. Total revenue for rate-based service
4. Excess (deficiency) revenue over expenses (line 3 less line 2)
5. Total reserve from all prior periods (not including this period)
6. Calculation of reserve and amounts due to purchaser:

[illegible]

## Illustration 7.4 Reserves Supplemental Schedule, Continued

### Instructions for Preparing the Schedule

**Facility** -- Enter the name of the facility. A separate schedule is needed for each rate-based service operated by the agency/facility.

**Period Covered by the Audit** -- Enter the period covered by the audit.

1. **Total Units of Service** -- Enter the total units of service provided by the facility for rate-based service during the period.
2. **Total Allowable Expenses for Rate-Based Service** -- Enter the total allowable expenses for rate-based service.
3. **Revenue for Rate Based Service** -- Enter the total amount of rate-based revenue for the care of children received from all sources.
4. **Excess (Deficiency) Revenue over Expenses** -- Subtract allowable expenses (2d) from revenue for rate based service (3) and enter the difference. This is the amount that may be applied to the reserve, subject to contractual and statutory limits.
5. **Total Reserve from All Prior Periods** -- Enter the amount of reserve carried forward from all prior periods. Do not include reserve from the period covered by the current audit.
6. **Calculation of Reserve and Amounts Due to Purchasers**
  - 6a. **Purchaser** -- List the names of all purchasers who provided rate-based revenue to the facility.
  - 6b. **Revenue from Purchaser** -- List the amount of rate-based revenue from each purchaser. The total revenue for this column would agree with the amount shown on line 3.
  - 6c. **Purchaser's Share of Total Revenue** -- Calculate each purchaser's share of the total revenue for rate-based service by dividing revenue from the purchaser in column 6b by total revenue in column 6b. The sum of the shares in this column would equal 1.

*The next four columns are for the first test: limiting the amount that may be retained for the current period to 5% of contract revenue (*Wis. Stat. 46.036(5m)(b)1.*) or the limit imposed by the contract, whichever is lower.*

- 6d. **Purchaser's Share of Excess Revenue (Deficiency)** -- Calculate each purchaser's share of the excess revenue by multiplying the amount from line 4 by the share of total revenue in column 6c. The total for this column would equal the amount in line 4.
- 6e. **Cap on Reserve for First Test** -- Enter the cap on the reserve specified by the contract or 5% of the amount of revenue from the purchaser (column 6b), whichever is lower.
- 6f. **Amount to Add to Reserve for this Period** and **6g. Amount Due to Purchaser as a Result of the First Test** -- If the purchaser's share of excess revenue (column 6d) exceeds the cap on reserve for the first test (column 6e), enter the amount of the cap in column 6f and enter the amount in excess of the cap (column 6d - column 6e) in column

#### Illustration 7.4 Reserves Supplemental Schedule, Continued

6g. Otherwise, enter the amount of the purchaser's share of excess revenue (deficiency) in column 6f and \$0 in column 6g.

*The next five columns are for the second test: limiting the amount that may be retained for the all periods to 10% of contract revenue (Wis. Stat. 46.036(5m)(b)2. and 46.036(5m)(b)3.) or the limit imposed by the contract, whichever is lower.*

**6h. Purchaser's Share of Reserve from All Prior Periods** -- Enter the purchaser's share of reserve from all prior periods. Facilities may use any method agreed to by their purchasing agencies for determining the shares. Two possible ways to determine shares are to use the purchaser's share as determined by prior audit or to use a pro-rata share obtained by multiplying the amount of reserve for all prior periods (line 5) by the purchaser's share of total revenue (column 6c).

The total for this column would agree with the amount in line 5.

**6i. Purchaser's Share of Reserve from All Periods** -- Add the amount to be added to the reserve for this period (column 6f) to the share of the reserve from prior periods (column 6h).

**6j. Cap on Reserve for Second Test** -- Enter the cap on the reserve specified by the contract or 10% of the amount of revenue from the purchaser (column 6b), whichever is lower.

**6k. Amount of Reserve and 6l. Amount due to Purchaser as a Result of the Second Test** -- If the purchaser's share of the reserve from all periods (column 6i) exceeds the cap on reserve for the second test (column 6j), enter the amount of the cap in column 6k and enter the amount in excess of the cap (column 6i - column 6j) in column 6l. Otherwise, enter the amount of the purchaser's share of reserve from all periods (column 6k) in column 6k and \$0 in column 6l.

**6m. Total Amount Due to Purchaser** -- Add the amounts due to the purchaser from the first test (column 6g) and the second test (column 6l) to determine the total amount due to the purchaser, if the purchaser chooses to collect it.

### 7.1.7 Other Supplemental Schedules Required by Granting Agencies

Applicability	
Agreed-Upon Procedures	Yes
Program Audit	Yes
Agency-Wide Audit	Yes

Granting agencies may specify that the audit report include other supplemental schedules to meet particular purposes. For example, a county might require that the community based residential facilities it contracts with have a supplemental schedule in the audit report comparing budgeted and actual expenditures, which the county uses to settle the contracts with the CBRF's.

The department will not routinely require a supplemental schedule for its grants, although it reserves the right to do so. The department will rely on audit testing of the expenditure reports submitted to the department by the provider to confirm the accuracy of the expenditure reports and payments made based on those reports ([Section 5.5](#)).

Other granting agencies should require other supplemental schedules only if the information in the schedules serves a particular need. Before requiring a supplemental schedule for a provider that has an agency-wide audit, the granting agency should review the requirements for the Schedule of Functional Revenue and Expenses ([Section 7.1.1](#)) to determine whether this schedule meets the granting agency's information needs. If the granting agency does require a supplemental schedule covering its programs, the granting agency must be willing to have its programs pay for the incremental cost of the other supplemental schedules.

In an agreed-upon procedures engagement, the auditor reports on the other supplemental schedule in the "Report on the Results of an Agreed-upon Procedures Engagement" ([Section 7.2.3](#)) if the granting specifies that the engagement covers this information. In program audits, other supplemental schedules must be covered by the auditor's "Opinion on the Financial Statement of a Program in Accordance with the Program Audit" ([Section 7.2.2](#)), which states the auditor's opinion on whether the schedule is fairly presented in all material respects. For agency-wide audits, the schedule must be covered by the auditor's "Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards" ([Section 7.2.1](#)), which states the auditor's opinion on whether the information in the schedule is "fairly stated, in all material respects, in relation to the basic financial statements taken as a whole."

## **7.2 Report elements prepared by the auditor**

The audit report must include the auditor's opinion on the financial statements and auditor's reports on the results of the audit. The particular reports that must be included depend on the type of audit ([Illustration 7.1](#) "Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits").

The models in this section are intended to illustrate the auditor's reports that would be typically found in reports on agreed-upon procedures, program audits, and agency-wide audits performed in accordance with the *Provider Agency Audit Guide*. Auditors should modify the reports as needed to suit the provider's circumstances using the guidance in professional standards:

- Illustrative report examples on American Institute of Certified Public Accountant's website, <http://www.aicpa.org/belt/a133.htm>, or by fax at the AICPA fax hotline at (201) 938-3787, document number 311.
- Statement of Position 98-3 "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards."
- Codification of Statements on Auditing Standards.

## 7.2.1 Opinion on Financial Statements and Supplementary Schedule of Expenditures of Federal and State Awards<sup>1</sup>

Applicability	
Agreed-Upon Procedures	No
Program Audit	No
Agency-Wide Audit	Yes

### Independent Auditor's Report

[Addressee]

We have audited the accompanying statement of financial position of Example Agency as of December 31, 199X, and the related statements of activities and cash flows<sup>2</sup> for the year then ended. These financial statements are the responsibility of Example Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Example Agency as of December 31, 199X, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of Example Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying schedule of expenditures of federal and state awards<sup>3</sup> is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular

---

<sup>1</sup> The *Provider Agency Audit Guide* requires that the opinion cover the "Incorporated Group Home/Child Caring Institution Supplemental Schedule" ([Section 7.1.5](#)), the "Reserve Supplemental Schedule" ([Section 7.1.6](#)), and other supplemental schedules ([Section 7.1.7](#)) when applicable to the agency being audited. All of these supplemental schedules need to be referenced in this opinion when they are included in the audit report.

<sup>2</sup> Use financial statement titles that are appropriate for the type of agency being audited.

<sup>3</sup> If reporting on additional supplementary information, such as the "Incorporated Group Home/Child Caring Institution Supplemental Schedule," the "Reserve Supplemental Schedule," or other supplemental schedules required by granting agencies, this paragraph should be modified to describe the additional supplementary information.

A-133, *Audits of States, Local Governments and Non-Profit Organizations*,<sup>1</sup> and the *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.<sup>2</sup>

[Signature]

[Date]

---

<sup>1</sup> Include a reference to [OMB Circular A-133](#) only if the audit was performed in accordance with that circular.

<sup>2</sup> When reporting on supplementary information, the auditor should consider the effect of any modifications to the report on the basic financial statements. Further, if the report on supplementary information is other than unqualified, this paragraph should be modified. Guidance for reporting these circumstances is described in SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* (AICPA, *Professional Standards*, vol. 1, AU sec. 551, paragraphs 551.09-.11 and 551.13-.14).



## 7.2.2 Opinion on the Financial Statement of a Program in Accordance with the Program Audit<sup>1</sup>

Applicability	
Agreed-Upon Procedures	No
Program Audit	Yes
Agency-Wide Audit	No

### Independent Auditor's Report

We have audited the accompanying schedule of expenditures of federal and state awards<sup>2</sup> for the [identify the program(s)] of Example Entity for the year ended June 30, 19XX. This financial statement is the responsibility of Example Entity's management. Our responsibility is to express an opinion on the financial statement of the program based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*<sup>3</sup>, and the *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections. Those standards, OMB Circular A-133, and the *Provider Agency Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedule of expenditures of federal and state awards referred to above presents fairly, in all material respects, the expenditures of federal and state awards under the [identify the program(s)] in conformity with generally accepted accounting principles.

---

<sup>1</sup> In many cases, the financial statement of the program will consist only of the schedule of expenditures of federal and state awards and notes to the schedule. In addition, the *Provider Agency Audit Guide* requires that the opinion cover the "Incorporated Group Home/Child Caring Institution Supplemental Schedule" ([Section 7.1.5](#)), the "Reserve Supplemental Schedule" ([Section 7.1.6](#)), and other supplemental schedule ([Section 7.1.7](#)) when applicable to the agency being audited. All of these supplemental schedules need to be referenced in this opinion when they are included in the audit report.

<sup>2</sup> If reporting on additional supplementary information, such as the "Incorporated Group Home/Child Caring Institution Supplemental Schedule," the "Reserve Supplemental Schedule," or other supplemental schedules required by granting agencies, this paragraph should be modified to describe the additional supplementary information.

<sup>3</sup> Throughout the report, include a reference to [OMB Circular A-133](#) only if the program audit is also in accordance with the Circular.

In accordance with *Government Auditing Standards*, we have also issued our report dated [date of report] on our consideration of Example Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

[Signature]

[Date]

### 7.2.3 Report on the Results of an Agreed-Upon Procedures Engagement

Applicability	
Agreed-Upon Procedures	Yes
Program Audit	No
Agency-Wide Audit	No

[Granting agency]

We have performed the procedures enumerated below, which were agreed to by [Example County], solely to assist you with respect to monitoring contract requirements as indicated in your agency contract with [Example Agency] for the following programs: [list programs, amount of the awards, and amount of expense under the awards (unaudited)].

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections. The sufficiency of these procedures is solely the responsibility of the [Example County]. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

[Include paragraphs to enumerate procedures and findings.] <sup>1</sup>

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified program elements, accounts, or requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

[Signature]

[Date]

---

<sup>1</sup> Findings need to include all of the elements of a finding as described in [Section 7.2.7](#)). Findings may be presented in a separate schedule of findings ([Section 7.2.7](#)).

## 7.2.4 Report on Compliance with Requirements Applicable to the Program and on Internal Control Over Compliance in Performed in Accordance with the Program Audit

Applicability	
Agreed-Upon Procedures	No
Program Audit	Yes
Agency-Wide Audit	No

[Addressee]

### Compliance

We have audited the compliance of Example Entity with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*<sup>1</sup> and the *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections that are applicable to [identify the federal and state programs] for the year ended June 30, 19XX. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs is the responsibility of Example Entity's management. Our responsibility is to express an opinion on Example Entity's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections. Those standards, OMB Circular A-133, and the *Provider Agency Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on [identify the federal and state programs] occurred. An audit includes examining, on a test basis, evidence about Example Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Example Entity's compliance with those requirements.

In our opinion, Example Entity complied, in all material respects, with the requirements referred to above that are applicable to its [identify the federal and state programs] for the year ended June 30, 19XX. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and the *Provider Agency Audit Guide* and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 99-1 and 99-21].<sup>2</sup>

<sup>1</sup> Throughout this report, include references to [OMB Circular A-133](#) only if the program audit is also in accordance with the Circular.

<sup>2</sup> If there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

## Internal Control Over Compliance

The management of Example Entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal and state programs. In planning and performing our audit, we considered Example Entity's internal control over compliance with requirements that could have a direct and material effect on its [*identify the federal and state programs*] in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and the *Provider Agency Audit Guide*.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.<sup>1</sup>

This report is intended for the information of the audit committee, management, [*specify legislative or regulatory body*], the federal awarding agency, the state awarding agency, and the pass-through entity. However, this report is a matter of public records and its distribution is not limited.

[Signature]

[Date]

---

<sup>1</sup> If the auditor identified reportable conditions, replace this paragraph with the following paragraphs:

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect Example entity's ability to administer a federal or state program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 99-1 and 99-2].

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a federal or state program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. [However, we believe that none of the reportable conditions described above is a material weakness.] or [However, of the reportable conditions described above, we consider items (list the reference numbers of the related findings, for example, 99-1 and 99-2) to be material weaknesses.

## 7.2.5 Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and the *Provider Agency Audit Guide*

Applicability	
Agreed-Upon Procedures	No
Program Audit	No
Agency-Wide Audit	Yes

[Addressee]

We have audited the financial statements of Example Agency as of and for the year ended December 31, 199X, and have issued our report thereon dated [insert date of report].<sup>1</sup> We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Provider Agency Audit Guide*, 1999 revision, issued by the Wisconsin Departments of Health and Family Services, Workforce Development, and Corrections

### Compliance

As part of obtaining reasonable assurance about whether Example Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or the *Provider Agency Audit Guide*.<sup>2 3</sup>

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Example Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing

---

<sup>1</sup> Describe any departure from the standard report (e.g., qualified opinion, modification as to consistency due to change in accounting principle, reference to the report of other auditors, etc.).

<sup>2</sup> If the auditor noted material noncompliance that needs to be reported in accordance with [Government Auditing Standards](#), Chapter 5, paragraphs 5.18 and 5.19, the last sentence of this paragraph would be replaced with:

The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 99-2 and 99-3].

<sup>3</sup> If the auditor has issued a separate letter to management to communicate matters that do not meet the criteria for reporting in paragraph 5.18 of *Government Auditing Standards*, this paragraph should be modified to include a statement such as the following:

However, we noted certain immaterial instances of noncompliance that we have reported to management of Example Agency in a separate letter dated [insert date of letter].

our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.<sup>1 2</sup>

---

<sup>1</sup> If the auditor identified reportable conditions, replace this paragraph with the following paragraphs:

In planning and performing our audit, we considered Example Entity's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Example Entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items [list the reference numbers of the related findings, for example, 99-1 and 99-2].

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. [However, we believe that none of the reportable conditions described above is a material weakness.] or [However, of the reportable conditions described above, we consider items (list the reference numbers of the related findings, for example, 99-1 and 99-2) to be material weaknesses.]

<sup>2</sup> If the auditor has issued a separate letter to management to communicate other matters involving the design and operation of the internal control over financial reporting, this paragraph should be modified to include a statement such as the following:

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Example Agency in a separate letter dated [insert date of letter].

This report is intended for the information of the audit committee, management and [specify legislative or regulatory body].<sup>1</sup> However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

---

<sup>1</sup> If this report is issued for an audit that is subject to [OMB Circular A-133](#), this sentence should be modified as follows:

This report is intended for the information of the audit committee, management and federal and state awarding agencies and pass-through entities.



## 7.2.6 Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133<sup>1</sup>

Applicability	
Agreed-Upon Procedures	No
Program Audit	Yes, if audit is also in accordance with OMB Circular A-133
Agency-Wide Audit	Yes, if audit is also in accordance with OMB Circular A-133

[Addressee]

### Compliance

We have audited the compliance of Example Agency with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 199X. Example Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Example Agency's management. Our responsibility is to express an opinion on Example Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the type of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Example Agency's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Example Agency's compliance with those requirements.

In our opinion, Example Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 199X. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items [List related finding reference number].<sup>2</sup>

### Internal Control Over Compliance

The management of Example Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants

<sup>1</sup> This report is required only if the audit is performed in a accordance with the requirements of [OMB Circular A-133](#).

<sup>2</sup> When there are no such instances of noncompliance identified in the schedule of findings and questioned costs, the last sentence should be omitted.

applicable to federal programs. In planning and performing our audit, we considered Example Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

[Signature]

[Date]

## 7.2.7 The Schedule of Findings and Questioned Costs

Applicability	
Agreed-Upon Procedures	Yes, if findings are not in the Report on Results of Agreed-upon Procedures Engagement
Program Audit	Yes
Agency-Wide Audit	Yes

For program and agency-wide audits, the audit report must include a “Schedule of Findings and Questioned Costs” showing the results of the audit, and this schedule is required whether or not the audit resulted in findings. For agreed-upon procedures engagements, findings may be reported in the “Report on Results of Agreed-upon Procedures Engagement” ([Section 7.2.3](#)) or in a separate schedule. The “Schedule of Findings and Questioned Costs” is prepared by the auditor.

### ***Content of the “Schedule of Findings and Questioned Costs”***

The “Schedule of Findings and Questioned Costs” must include the summary of auditor’s results, findings related to the financial statements, and other issues related to the audit performed in accordance with the *Provider Agency Audit Guide*. See [Illustration 7.5](#) “Content of the Schedule of Findings and Questioned Costs” for a detailed listing of the components of the schedule and their applicability to the type of audit performed. Examples of the “Schedule of Findings and Questioned Costs” for an audit in accordance with the *Guide* and with both the *Guide* and OMB Circular A-133 are also included in Illustration 7.5.

### ***Definition of Audit Findings***

Audit findings include internal control findings (reportable conditions and material weaknesses), findings of noncompliance, questioned costs, or fraud. All findings of noncompliance for department programs need to be reported in the “Schedule of Findings and Questioned Costs.”

### ***Organization of Findings***

Audit findings that relate to the same issue should be presented as a single finding. Whenever possible, audit findings should be organized by federal agency or pass-through agency.

### ***Elements of a Finding***

An audit finding should include enough information for the auditee to take corrective action and for the granting agency to resolve the finding. An audit finding should include the following elements:

- The federal or state program, including CFDA

*Elements of a Finding continues on the following page*

### **Materiality in a Financial Assistance Environment**

A special consideration for audits involving government funds is a lower level of materiality. Agencies who receive government financial assistance have an obligation to honor the public trust, which demands that agencies follow the very highest standards when using public funds. This concept of a lower level of materiality when dealing with government grants is reflected in the *Government Auditing Standards*, which says “In an audit of the financial statements of a government entity or an entity that receives government assistance, auditors may set lower materiality levels than in audits in the private sector because of the public accountability of the auditee, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities and functions.”

or state title and number, the award number (use the Community Aids Reporting System profile number if reporting for the program is made through that system), the name of the federal agency, and the name of the passthrough agency.

- The criteria or specific requirements upon which the finding is based (what should be).
- The condition found (what was).
- The effect of the deficiency (the difference between what should be and what was).
- Questioned costs and how they were computed (see sidebar).
- Information to provide proper perspective for judging the prevalence and consequences of the audit findings.
- Recommendations to prevent future occurrences of the deficiency.
- Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical.
- Reference numbers to allow easy referencing of the audit findings during follow-up. (We recommend using the last two digits of the year of the audit as the first two digits of the reference number. For example, findings for a 1999 audit would be numbered 99-1, 99-2, etc.)

#### **Questioned Costs**

Questioned costs must be reported if the questioned costs that the auditor specifically identified or if the auditor's best estimate of the total questioned costs exceed the greater of:

- \$500 or
- 5% of expenses incurred under the contract.

#### ***Letter Notification and the Schedule of Findings and Questioned Costs***

Some granting agencies will accept letter notification that an agency had an audit when the audit was “clean” instead of having to actually receive a copy of the complete audit report. In these situations, a copy of the “Schedule of Findings and Questioned Costs” needs to be attached to the notification letter. See [Section 8.2](#) for additional information on letter notification.

### Illustration 7.5 Schedule of Findings and Questioned Costs

	PAAG only	PAAG/ A-133
<b>A. The Summary of Auditor's Results, which must include:</b>	Y	Y
1. The type of report the auditor issued on the financial statements of the agency or of the program	Y	Y
2. Where applicable a statement that reportable conditions in internal control were disclosed by the audit of the financial statements of the agency or of the program and whether any such conditions were material weaknesses	Y	Y
3. A statements as to whether the audit disclosed any noncompliance which is material to the financial statements of the agency or of the program	Y	Y
4. Where applicable a statement that reportable conditions in internal control over major program were disclosed by the audit and whether any such conditions were material weaknesses (A-133)	NA	Y
5. The type of report the auditor issues on compliance for major programs (A-133)	NA	Y
6. A statement as to whether the audit disclosed any audit findings which the auditor is required by report under section .510(a) of A-133	NA	Y
7. An identification of major programs (A-133)	NA	Y
8. The dollar threshold used to distinguish between Type A and Type B programs, as described in section .520(b) of A-133	NA	Y
9. A statement as to whether the auditor qualified as a low-risk auditee under section .530 of A-133	NA	Y
<b>B. Findings related to the financial statements of the agency or of the program which are required to be reported in accordance with GAGAS</b>	Y	Y
<b>C. Findings and questioned costs for Federal awards which shall include audit findings as defined in section .510(a) of A-133</b>	NA	Y
<b>D. Other issues</b>	Y	Y
1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?	Y	Y
2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weakness, reportable condition, management letter comment) related to grants/contracts with funding agencies that require audits to be in accordance with the Provider Agency Audit Guide: Department of Health and Family Services      Yes/No/NA Department of Workforce Development            Yes/No/NA Department of Corrections                            Yes/No/NA Other funding agencies (list)                        Yes/No	Y	Y
3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? (yes/no)	Y	Y
4. Name and signature of partner	Y	Y
5. Date of report	Y	Y

**Illustration 7.5 Schedule of Findings and Questioned Costs, Continued**

**Example A – An agency-wide audit in accordance  
with just the *Provider Agency Audit Guide***

**Example Agency  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30 19XX**

**A. Summary of Auditor's Results**

**Financial Statements**

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued?   | Unqualified   |
| 2. Internal control over financial reporting:                                   |               |
| a. Material weakness(s) identified?   | No            |
| b. Reportable condition(s) identified not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to the financial statements noted?                    | No            |

**B. Financial Statement Findings**

No matters were reported

**C. Other issues**

- |  |       |
|--|-------|
| 1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?   | No    |
| 2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weakness, reportable condition, management letter comment) related to grants/contracts with funding agencies that require audits to be in accordance with the <i>Provider Agency Audit Guide</i> : |       |
| Department of Health and Family Services   | Yes   |
| Department of Workforce Development  | N/A   |
| Department of Corrections  | N/A   |
| 3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? (yes/no)   | No    |
| 4. Name and signature of partner   | _____ |
| 5. Date of report  | _____ |

## Illustration 7.5 Schedule of Findings and Questioned Costs, Continued

**Example B – An agency-wide audit in accordance with both  
the *Provider Agency Audit Guide* and OMB Circular A-133**

### **Example Agency Schedule of Findings and Questioned Costs For the Year Ended June 30 19XX**

#### **A. Summary of Auditor's Results**

##### **Financial Statements**

- |   |               |
|---|---------------|
| 1. Type of auditors' report issued?   | Unqualified   |
| 2. Internal control over financial reporting:                                   |               |
| a. Material weakness(s) identified?   | No            |
| b. Reportable condition(s) identified not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to the financial statements noted?                    | No            |

##### **Federal Awards**

- | 4. Internal control over major programs:   |   |          |        |  |                       |
|--|---|----------|--------|--|-----------------------|
| a. Material weakness(s) identified?  | No  |          |        |  |                       |
| b. Reportable condition(s) identified not considered to be material weaknesses?                                      | None reported   |          |        |  |                       |
| 5. Type of auditor's report issued on compliance for major programs?   | Unqualified   |          |        |  |                       |
| 6. Any audit findings discloses that are required to be reported in accordance with Circular A-133, Section .510(a)? | No  |          |        |  |                       |
| 7. Identification of major programs:   | <table style="width: 100%; border-collapse: collapse;"> <tr> <th style="text-align: left; border-bottom: 1px solid black;">CFDA No.</th> <th style="text-align: right; border-bottom: 1px solid black;">Amount</th> </tr> <tr> <td style="padding-left: 20px;">Special Supplemental Food Program for Women, Infants, and Children</td> <td style="text-align: right;">10.557      \$350,000</td> </tr> </table> | CFDA No. | Amount | Special Supplemental Food Program for Women, Infants, and Children | 10.557      \$350,000 |
| CFDA No.   | Amount  |          |        |  |                       |
| Special Supplemental Food Program for Women, Infants, and Children   | 10.557      \$350,000   |          |        |  |                       |
| 8. Dollar threshold used to distinguish between Type A and Type B programs?  | \$300,000   |          |        |  |                       |
| 9. Auditee qualified as low-risk auditee?  | No  |          |        |  |                       |

#### **B. Financial Statement Findings**

No matters were reported

#### **C. Federal and State Award Findings and Questioned Costs**

No matters were reported

#### **D. Other Issues**

- |  |       |
|--|-------|
| 1. Does the auditor have substantial doubt as to the auditee's ability to continue as a going concern?   | No    |
| 2. Does the audit report show audit issues (i.e. material non-compliance, non-material non-compliance, questioned costs, material weakness, reportable condition, management letter comment) related to grants/contracts with funding agencies that require audits to be in accordance with the <i>Provider Agency Audit Guide</i> : |       |
| Department of Health and Family Services   | Yes   |
| Department of Workforce Development  | N/A   |
| Department of Corrections  | N/A   |
| 3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? (yes/no)   | No    |
| 4. Name and signature of partner   | _____ |
| 5. Date of report  | _____ |

## 8 Audit report submission

The provider is responsible for ensuring that each of its granting agencies receives the complete audit report ([Section 8.1](#)) or letter notification ([Section 8.2](#)) within six months of the end of the fiscal period covered by the audit. If the provider operates a group home or child caring institution facility ([Section 7.1.5](#)), a copy of the audit must be sent to the Department of Health and Family Services.

If the audit report will be late, the provider must request a formal extension of the audit deadline from each granting agency ([Section 8.3](#)). If the audit report is not received by the due date or extended deadline, the granting agency can impose sanctions on the provider for failure to fulfill the terms of its contract by not providing an audit report within the specified timeframe ([Section 8.4](#)).

The mailing addresses for sending audit reports to the Departments of Health and Family Services, Workforce Development, and Corrections are in [Section 10.1](#).

### 8.1 Complete audit report

The provider must send a complete copy of the audit report to each granting agency unless the audit report is “clean” and the granting agency accepts letter notification ([Section 8.2](#)). An audit report is considered to be complete when it includes all of the report elements applicable to an audit of its type (See [Illustration 7.1](#) “Audit Report Elements for Agreed-Upon Procedures, Program Audits, and Agency-Wide Audits”). In addition, the report materials sent to the granting agencies must include either the Management Letter (or other document conveying auditor’s comments) or written assurance a Management Letter was not issued (this assurance is in the “Schedule of Findings and Questioned Costs” ([Section 7.2.7](#))).

### 8.2 Letter notification

The Department of Health and Family Services (DHFS) and the Department of Workforce Development (DWD) will accept letter notification instead of audit reports when audits are “clean” and when the audit information is not needed for other specific purposes, such as closing out a grant or claiming federal funding. (The Department of Corrections wants to continue to receive all audit reports for agencies that they contract with. Providers need to check with other granting agencies on whether they will also accept letters instead of audit reports.) An example of such a letter is included in [Illustration 8.1](#) “Sample letter conveying audit results.”

Agencies can send DHFS and DWD a letter instead of an audit report when:

- The agency does not operate group home or child caring institution facilities ([Section 7.1.5](#)),
- The audit was performed in accordance with the applicable federal, state, and professional standards,
- There are no significant financial difficulties or other issues affecting department programs, including substantial doubt as to the agency’s ability to continue as a going



concern, related party transactions involving department programs, and profit or excess revenue exceeding allowable cost limits,

- There are no material noncompliance issues, no material internal control weaknesses, and no reportable conditions related to general agency operations, and
- There are no other audit issues or prior year issues related to specific department programs.

The letter needs to include the “Schedule of Findings and Questioned Costs” ([Section 7.2.7](#)). The letter also needs to include the auditor’s name and address and the signature of a top agency official attesting to the accuracy of the information conveyed with the letter.

Granting agencies who accept letter notification have the right to receive a complete copy of the audit report upon request.

### **8.3 Extension of audit deadline**

If the audit will not be completed in time, the provider needs to obtain extension of the audit deadline from each granting agency in order to avoid sanctions for failure to provide an audit report within the deadline. The request for the extension should include the reason for the delay and the anticipated date that the audit report will be sent to the granting agency.

### **8.4 Sanctions**

The granting agency may impose sanctions on the provider for failure to send an audit to the granting agency by the deadline for the report or for failure to send a complete audit report. The granting agency can:

- Require modified monitoring and/or reporting provisions,
- Delay payments, withhold a percentage of the payments, or suspend the award until the provider is in compliance,
- Discontinue contracting with the provider,
- Conduct an audit or arrange for an independent audit of the provider and charge the cost of completing the audit to the provider,
- Charge the provider for all loss of federal or state aid or for penalties assessed to the granting agency because the provider did not submit a complete audit report within the required time frame,
- Disallow the cost of audits that do not meet these standards, and/or
- Take other action that the granting agency determines is necessary to protect federal or state funding.

### Illustration 8.1 Sample letter conveying audit results

[date]

Office of Program Review and Audit  
Department of Health and Family Services  
1 West Wilson Street, Room 951  
P.O. Box 7850  
Madison, WI 53707-7850

Dear Sir or Madam:

[name of agency] has had an audit covering [period]. The audit met the applicable federal, state, and professional standards. The audit report did not indicate financial issues that would adversely affect programs from the Department of Health and Family Services, such as substantial doubt as to the agency's ability to continue as a going concern or related party transactions involving Department funding. In addition, the audit report [and the Management Letter, if one was issued,] did not indicate any findings, questioned costs, or other audit issues [related to programs from the Department or programs from a state agency].

The auditor is:

[name of auditor]  
[auditor's address]  
[auditor's phone number]

I attest that the information in this letter and the attachment is correct, and I will provide you with a complete copy of the audit report if you request one.

Sincerely,

[top agency official or audit liaison]

Attachment: Schedule of Findings and Questioned Costs

## 9 Audit quality

The provider, the auditor, and the granting agency each has a role in ensuring audit quality: the provider through the audit procurement process, the auditor through following the applicable audit standards, and the granting agency through review of the audit work.

### 9.1 The provider and audit procurement

Providers should follow acceptable procurement practices when procuring audit services, just as they would when procuring any other goods and services. The National Intergovernmental Audit Forum's [guide](#) "How to Avoid a Substandard Audit: Suggestions for Procuring an Audit" is a good source of guidance on audit procurement. The guide discusses five basic elements of an effective audit procurement process:

- **Planning** – Decide what needs to be done and when.
- **Fostering competition by soliciting proposals** – Write a clear and direct solicitation document and disseminate it widely.
- **Evaluating proposals and qualifications** – Have a committee of knowledgeable people evaluate the ability of prospective auditors to effectively carry out the audit.
- **Preparing a written agreement** – Document the expectations of both the entity and the auditor.
- **Monitoring the auditor's performance** – Periodically review the progress of the audit.

There are two important points to add to the NIAF's guidance. As part of planning the procurement process, providers should include information on the audit standards that apply to the audit in the request for proposal. They can obtain this information from the contract with the granting agency or from the granting agency itself. When the provider does business with more than one granting agency, the provider needs to ensure that the audit will satisfy the audit requirements of all of the granting agencies. (The auditor also needs to confirm that the type of audit that the provider describes will meet the applicable requirements.)

Also, as part of evaluating the proposals, the provider should confirm that the auditor has the necessary qualifications to perform the audit. Some of the things a provider should do include checking with the Wisconsin Department of Regulation and Licensing at (608) 266-3816 to confirm that the auditor is licensed as a Certified Public Accountant, requesting that the auditor provide a copy of the most recent external quality control review report (peer review report), and contacting other providers that the auditor has audited to find out whether they were satisfied with the auditor's performance.

### 9.2 The auditor and audit standards

All audits of department programs are to be performed in accordance with the *Provider Agency Audit Guide*, generally accepted auditing standards, and [Government Auditing Standards](#). In addition, many audits of agencies who receive department funding need to be in accordance with

the federal audit requirements in [OMB Circular A-133](#). Auditors should not take an engagement to perform an audit involving department funds unless they have the training and experience to perform audits in accordance with the applicable standards. The auditor must:

- Be licensed by the State of Wisconsin as a certified public accountant ([Wis. Stat. 442](#) and *Government Auditing Standards*).
- Possess the technical qualifications to perform an audit involving government programs, including continuing professional education (generally accepted auditing standards and *Government Auditing Standards*).
- Undergo an external quality control review (peer review) at least once every three years, and the auditor must make the report on the quality control review available to the provider and the granting agency upon request. (*Government Auditing Standards*).
- Make workpapers available to the provider, the granting agency, and the department. Access to workpapers includes rights of those agencies to obtain copies of the workpapers.

### **9.3 The granting agency and review of the audit work**

The granting agency is responsible for ensuring that the audit met the applicable standards. Granting agencies need to review all audit reports for providers they do business with. The desk review checklist in [Section 10.4](#) provides guidance on what to look for when reviewing an audit report. In addition, the granting agency may also review the auditor's quality control review report and the auditor's workpapers, both of which the auditor needs to make available to the granting agency upon request.

The granting agency should follow up if it finds that the audit work was deficient. However, what appear to be "deficiencies" are often the result of misunderstanding or miscommunication. The granting agency should always give an auditor the opportunity to correct the problem or explain the reasoning for what was done.

If the auditor does not correct the deficiencies, the granting agency should contact the Wisconsin Department of Regulation and Licensing at (608) 266-3816 and the Wisconsin Institute of Certified Public Accountants at (414) 785-0445. These organizations will determine whether the situation warrants further review and, if so, whether to take disciplinary action against the auditor.

## 10 Appendices

*10.1 How to contact the department*

*10.2 Statutory audit requirements*

*10.3 Vendor vs. subrecipient*

*10.4 Reviewing the audit report and resolving audit issues*

## **10.1 How to contact the department**

### ***Department of Health and Family Services***

Office of Program Review and Audit

1 West Wilson Street, Room 951

P.O. Box 7850

Madison, WI 53707-7850

Telephone (608) 266-2924

E-mail [coopepw@dhfs.state.wi.us](mailto:coopepw@dhfs.state.wi.us)

Fax (608) 261-6729

Homepage <http://www.dhfs.state.wi.us/grants>

### ***Department of Corrections***

Bureau of Finance and Administrative Service

Division of Management Services

149 E Wilson Street

P.O. Box 7925

Madison, WI 53707-7925

Telephone (608) 266-3690

E-mail [Phillip.Flanagan@doc.state.wi.us](mailto:Phillip.Flanagan@doc.state.wi.us)

Fax (608) 267-1759

### ***Department of Workforce Development***

Administrative Services Division

Bureau of Finance

201 East Washington Avenue

P.O. Box 7946

Madison, WI 53707

Telephone (608) 266-9405

E-mail [shislke@mail.state.wi.us](mailto:shislke@mail.state.wi.us)

Fax (608) 266-9405

Homepage <http://www.dwd.state.wi.us/des/bmo.htm>

## 10.2 Statutory audit requirements

Wisconsin statutes establish the audit requirements for the Department of Health and Family Services (DHFS), Department of Workforce Development (DWD), and Department of Corrections (DOC). The statutes for the three departments reflect their common origin in the old Department of Health and Social Services:

➤ s. 46.036 for the Department of Health and Family Services

“Unless waived by the department, biennially, or annually, if required by federal law, provide the purchaser with a certified financial and compliance audit report if the care and services purchased exceed \$25,000. The audit shall follow the standards that the department prescribes.”

➤ s. 49.34 for the Department of Workforce Development

“Unless waived by the department, biennially, or annually, if required by federal law, provide the purchaser with a certified financial and compliance audit report if the care and services purchased exceed \$25,000. The audit shall follow the standards that the department prescribes.”

➤ s. 301.08 for the Department of Corrections

“Unless waived by the department, biennially, or annually, if required by federal law, provide the purchaser with a certified financial and compliance audit report. The audit shall follow the standards that the department prescribes.”

**Threshold for requiring an audit** – The statutory threshold for requiring an audit for DHFS and DWD is when a provider received \$25,000 or more in department funds for the purchase of care and services. DOC does not have a threshold below which audits are not required.

Department funds may be direct from department, as in the case where the department contracts directly with the provider, or through another agency, such as when a county sub-contracts department funds to a provider. Department funds may be federal, state, or a mixture of federal and state funding.

**Waiver of audit** – The statutes allow the departments to waive audits that would otherwise be required by the statute. The criteria and procedures for waiving audits are in [Section 3.2](#).

**Frequency of audit** – The statutes require audits to be performed at least every other year. However, the department’s contracts typically require an annual audit. In addition, the federal audit requirements are for an annual audit.

**Standards for the audit** – The standards for audits involving department funds are in one of two audit documents:

- The [State Single Audit Guidelines](#) for audits of local governments that have audits in accordance with [OMB Circular A-133](#) “Audits of States, Local Governments, and Non-Profit Organizations.” The *State Single Audit Guidelines* extend the single audit under A-133 to also include state programs.

- The *Provider Agency Audit Guide* for all other providers, including
  - Non-profit organizations, whether or not they also need to have audits in accordance with OMB Circular A-133,
  - For-profit organizations, and
  - Local governments that do not need to have audits in accordance with OMB Circular A-133.



### **10.3 Distinguishing between a vendor and a subrecipient**

The federal audit requirements in [OMB Circular A-133](#) are applicable to subrecipients, but not to vendors. If a provider has a subrecipient relationship with a granting agency, the provider will need to have an A-133 audit if it is a non-profit organization or a local government and if it expended more than \$300,000 in federal awards. On the other hand, OMB Circular A-133 does not apply if the provider has a vendor relationship with the granting agency,

Wisconsin Statutes establish state audit requirements for providers that receive department funding ([Section 10.2](#)). Therefore, the distinction between vendor or subrecipient is important only when determining whether or not the federal audit requirements in OMB Circular A-133 are also applicable.

#### **10.3.1 A-133's criteria for vendor and subrecipient**

The following is an excerpt from OMB Circular A-133 on distinguishing between a vendor and a subrecipient:

§\_\_\_\_.210 Subrecipient and vendor determinations.

(a) General. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

- (1) Determines who is eligible to receive what Federal financial assistance;
- (2) Has its performance measured against whether the objectives of the Federal program are met;
- (3) Has responsibility for programmatic decision making;
- (4) Has responsibility for adherence to applicable Federal program compliance requirements; and
- (5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

(c) Payment for goods and services. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

- (1) Provides the goods and services within normal business operations;

- (2) Provides similar goods or services to many different purchasers;
  - (3) Operates in a competitive environment;
  - (4) Provides goods or services that are ancillary to the operation of the Federal program; and
  - (5) Is not subject to compliance requirements of the Federal program.
- (d) Use of judgment in making determination. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.

### **10.3.2 GH/CCI's are vendors**

The Department of Health and Family Services (DHFS) preformed a formal study of the federal criteria for vendors and sub-recipients as the criteria apply to out-of-home care for children provided by group home and child caring institutions. DHFS determined that these payments constitute a vendor relationship, which is not subject to [OMB Circular A-133](#). However, group homes and child caring institutions may still need to have A-133 audits if they are non-profit and they expend more than \$300,000 in federal awards for other activities.

Therefore, group homes and child caring institutions will typically need to have audits in accordance with just the provisions of the *Provider Agency Audit Guide*.

## **10.4 Reviewing the audit report and resolving audit issues**

*This section is not done!*

The granting agency is responsible for performing a desk review of audit reports of its provider agencies. The purpose of the desk review is to determine whether the audits met the applicable standards (part of the effort to ensure audit quality in [Section 9.3](#)) and whether there are any issues disclosed in the audit reports that affect the granting agency's programs. If such issues exist, the granting agency is responsible for deciding whether the provider's corrective action sufficiently resolves the problems. The granting agency may also choose to review the auditor's quality control review report and the auditor's workpapers, both of which the auditor needs to make available to the granting agency upon request.

The desk review must be documented. A checklist such as the one that follows in this section serves a dual purpose of guiding a reviewer through the desk review and documenting the results of that review.

The desk review may be based on a review of the Schedule of Findings and Questioned Costs ([Section 7.2.7](#)), the audit report, or both. If the granting agency relies on the Schedule, it should compare the results of the audit conveyed in the Schedule to the audit report itself when the review of the schedule raises questions on audit issues or the adequacy of audit work or the provider has a history of having significant problems administering its programs.

The granting agency may supplement the desk review of the audit report with confirmation of the auditor's licensing status, review of the auditor's quality control review report, or review of the auditor's workpapers ([Chapter 9](#)).

## Desk Review for Audits Performed In Accordance with the *Provider Agency Audit Guide*

### 1) Determine whether the audit met applicable standards

The combination of audit requirements in the *Provider Agency Audit Guide* and OMB Circular A-133 result in five possible types of audits, and each of these types of audits result in different audit report elements.:

	A-133 is not applicable	A-133 is applicable
Agreed Upon Procedures	Type A	NA
Program audit	Type B	Type C
Agency-wide audit	Type D	Type E

An audit must meet the applicable standards in order for the granting agency to rely on it.

#### a) First, determine what the applicable standards are:

*PAAG* – What was the *minimum* type of audit required by the granting agency: agreed-upon procedures, program audit, or agency-wide audit?

*A-133* – Did the agency need an A-133 audit?

Yes, if the granting agency knows that the provider was a nonprofit or local government and that is expended more than \$300,000 in federal awards as a recipient or sub-recipient

#### b) Then determine whether the audit met those standards, in one of several ways:

*Review Schedule of Findings and Questioned Costs* – Section A of the checklist

*Review audit report* – Section B of the checklist

In addition, the granting agency may choose to:

*Review auditor qualifications*

*Review auditor's quality control review report*

*Review workpapers*

### 2) Resolve any issues related to the granting agency's programs (Section C of the checklist)

Two common issues to resolve are

**Reserves:** If the agency is allowed to retain a reserve in accordance with ... did the audit report show the amount of reserve that is attributable to the granting agency's contracts with the provider? Was any revenue in excess of the allowed reserve returned to the granting agency?

**Findings and questioned costs:** Did the provider adequately respond to the issue? Are there funds due to the granting agency?

Checklist will be included here

## 11 Definitions/Index

**This section is not done!**

*Internet addresses were current as of the time this document was published.  
See on-line version at <http://www.dhfs.state.wi.us/grants> for up-to-date internet addresses.*

46.036 – [Section 10.2](#)

48 CFR Part 31 – See [Contract Cost Principles and Procedures](#)

49.34 – [Section 10.2](#)

301.08 – [Section 10.2](#)

### **Agency-wide audit**

- ... appropriate when – [Section 3.1.6](#)
- ... defined – [Section 4.3](#)
- ... procedures – [Section 4.3](#)
- ... reporting – [Chapter 7](#)

### **Agreed-upon procedures**

- ... appropriate when – [Section 3.1.6](#)
- ... defined – [Section 4.1](#)
- ... procedures – [Section 4.1](#)
- ... reporting – [Chapter 7](#)

### **American Institute of Certified Public Accountants**

**Allowable Cost Policy Manual** – The department's policy on costs that are allowable for reimbursement by department programs. This policy adopts the federal cost principles ([Contract Cost Principles](#) in 48 CFR Part 31, [OMB Circular A-21](#), [OMB Circular A-87](#), and [OMB Circular A-122](#)) by reference.

- ... auditing allowable costs -- [Section 5.2](#)
- ... on line -- <http://www.dhfs.state.wi.us/grants>.

### **Audit**

- ... [agency-wide audit](#)
- ... [agreed-upon procedures](#)
- ... allowable cost – [Section 1.8](#)
- ... defined – [Chapter 1](#)
- ... procurement – [Section 9.1](#)
- ... [program audit](#)
- ... standards – [Chapter 4](#), [Section 9.2](#)
- ... waiver – [Section 3.2](#)
- ... Wisconsin Statute requiring – [Section 10.2](#)

**Audit Alert Bulletin** – The department’s semi-regular newsletter on audit issues. Current and past issues are on line at <http://www.dhfs.state.wi.us/grants>.

**Audit report**

- ... due date – [Chapter 8](#)
- ... report elements – [Section 8.1](#)
- ... reviewing – [Section 9.3](#) and [Section 10.5](#)

**Auditor** – The auditor is the independent person or firm hired by the granting agency or the provider to perform an audit in accordance with the requirements of the *Provider Agency Audit Guide*.

- ... qualifications – [Section 9.2](#)
- ... selecting an auditor – [Section 9.1](#)

**Capitated contract** – [Section 2.1.6](#)

**Care and services**

**Contract**

- ... capitated contract
- ... cost-based contract
- ... performance-based contract
- ... unit times unit price contract

**Contract Cost Principles and Procedures** – Federal allowable cost principles for commercial organizations in 48 CFR Part 31, which the department’s [Allowable Cost Policy Manual](#) adopts by reference.

- ... auditing allowable costs -- [Section 5.2](#)
- ... on line -- <http://www.access.gpo.gov/nara/cfr/cfr-table-search.html> (search Title 45 for "45cfr92")

**Corrective action plan**

- ... report element -- [Section 7.1.3](#)
- ... when required -- [Illustration 7.1](#)

**Cost-based contract** – [Section 2.1.6](#)

**Department** – The department is one of the three state agencies: the Department of Health and Family Services, the Department of Workforce Development, and the Department of Corrections. These three departments share certain grant administration and auditing documents: the [Provider Agency Audit Guide](#), the [Financial Management Manual for Counties, Tribes and Boards](#), the [Allowable Cost Policy Manual](#), and the [Audit Alert Bulletin](#).

**Department funding** – Department funding is money that was originally from or passed through one of the three [departments](#) that use this guide. Department funding retains its identity as department funding when it is passed through another agency, such as a county, so the department’s policies on grant administration and audit (the [Provider Agency Audit Guide](#), the

[Financial Management Manual for Counties, Tribes and Boards](#), and the [Allowable Cost Policy Manual](#)) apply to department funding that is passed through another agency.

***Federal cost principles***

- ... adopted as department policy – see [Allowable Cost Policy Manual](#).
- ... auditing allowable costs – [Section 5.2](#)
- ... [Contract Cost Principles and Procedures](#)
- ... [OMB Circular A-21](#)
- ... [OMB Circular A-87](#)
- ... [OMB Circular A-122](#)

***Financial Management Manual for Counties, Tribes and Boards*** – a shared document...

***Financial statements***

- ... of a program -- [Section 7.1.4](#)
- ... report element -- [Section 7.1.1](#)
- ... when required -- [Illustration 7.1](#)

***For-profit organization*** -- definition

- ... federal audit requirement – [Section 3.1.2](#)
- ... Provider Agency Audit Guide applies to – [Section 1.1](#)

***Fraud*** – Obtaining something of value under false pretenses -- [Chapter 6](#).

***Generally accepted auditing standards*** -- give description, how to get hard copy, web address for AICPA, cross-references

***Generally accepted government auditing standards*** – See [Government Auditing Standards](#).

***Government Auditing Standards*** – description, also known as “generally accepted government auditing standards” and as the “yellow book”

- ... on line -- <http://www.ignet.gov/ignet/internal/manual/yellow/yellow.html>

***Granting agency*** – The Granting agency is the agency that contracts with a provider for care and services that are funded with department funding. The granting agency may be the department or another agency, such as a county, which subcontracts department funds.

- ... assessing risk – [Chapter 2](#)
- ... determining type of audit – [Chapter 3](#)
- ... role in audit quality – [Section 9.3](#)

***Incorporated group home/child caring institution supplemental schedule***

- ... report element -- [Section 7.1.5](#)
- ... when required -- [Illustration 7.1](#)

***Management letter*** --

***Materiality***

- ... Fraud – [Section 6.3.1](#)
- ... Findings – [Section 7.2.7](#)



***National Intergovernmental Audit Forum's guide "How to Avoid a Substandard Audit: Suggestions for Procuring an Audit"***

... audit procurement role in audit quality -- [Section 9.1](#)

... on line -- <http://home.gvi.net/~edoig/prochand.txt>.

***Non-profit organization***

***OMB Circular A-102 Grants and Cooperative Agreements with State and Local Governments***  
***what it is***

... on line -- <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a102/a102.html>

***OMB Circular A-110 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations***  
***what it is,***

... on line -- <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a110/a110.html>

***OMB Circular A-122 Cost Principles for Nonprofit Organizations*** – Federal allowable cost principles for nonprofit organizations, which the department's [Allowable Cost Policy Manual](#) adopts by reference.

... auditing allowable costs -- [Section 5.2](#)

... on line -- <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a122/a122.html>

***OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations*** –  
***what it is***

... and Provider Agency Audit Guide – [Section 1.7](#)

... on line -- <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a133/a133.html>

***OMB Circular A-21 Cost Principles for Educational Institutions*** – Federal allowable cost principles for educational institutions, which the department's [Allowable Cost Policy Manual](#) adopts by reference.

... auditing allowable costs -- [Section 5.2](#)

... on line -- <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a021/a021.html>

***OMB Circular A-87 Cost Principles for State and Local Governments*** – Federal allowable cost principles for state and local governments, which the department's [Allowable Cost Policy Manual](#) adopts by reference.

... auditing allowable costs -- [Section 5.2](#)

... on line -- <http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a087/a087-all.html>

***OMB Compliance Supplement*** – ***what it is***

... on line -- [http://www.whitehouse.gov/WH/EOP/OMB/Grants/A133\\_Compliance/98toc.html](http://www.whitehouse.gov/WH/EOP/OMB/Grants/A133_Compliance/98toc.html)

***Opinion on financial statement of a program***

... report element -- [Section 7.2.2](#)

... when required -- [Illustration 7.1](#)

***Opinion on financial statements***

... report element -- [Section 7.2.1](#)

... when required -- [Illustration 7.1](#)

**Other supplemental schedule**

... report element -- [Section 7.1.7](#)

... when required -- [Illustration 7.1](#)

**Performance-based contract** – [Section 2.1.6](#)

**Program**

**Program audit**

... appropriate when – [Section 3.1.6](#)

... defined – [Section 4.2](#)

... procedures – [Section 4.2](#)

... reporting – [Chapter 7](#)

**Provider** – statute doesn't define ... Responsible for ....

**Provider Agency Audit Guide** --

... and OMB Circular A-133 – [Section 1.7](#)

... as opposed to State Single Audit Guidelines – [Section 1.1](#)

... effective date – [Section 1.4](#)

... overview – [Section 1.3](#)

... reference in audit reports – [Section 1.6](#), [Section 7.2](#)

... updates to – [Section 1.5](#)

... when applicable – [Section 1.1](#)

... when not applicable – [Section 1.2](#)

**Recipient**

... *definition*

... distinguishing between a vendor and a subrecipient – [Section 10.3](#)

... federal audit requirements – [Section 3.1.2](#)

**Reports on compliance and internal controls**

... report element for program audit -- [Section 7.2.4](#)

... report element for Government Auditing Standards audit -- [Section 7.2.5](#)

... report element for OMB Circular A-133 audit -- [Section 7.2.6](#)

... when required -- [Illustration 7.1](#)

**Report on results of an agreed-upon procedures engagement**

... report element -- [Section 7.2.3](#)

... when required -- [Illustration 7.1](#)

**Reserve**

**Reserve supplemental schedule**

... report element -- [Section 7.1.6](#)

... when required -- [Illustration 7.1](#)

## ***Risk***

***Risk-based approach*** – [Chapter 2](#), [Chapter 3](#)

***Sanctions*** – [Section 8.3](#)

### ***Schedule of expenditures of federal and state awards***

... financial statement of a program -- [Section 7.1.4](#)

... report element -- [Section 7.1.4](#)

... when required -- [Illustration 7.1](#)

### ***Schedule of findings and questioned costs***

... report element -- [Section 7.2.7](#)

... when required -- [Illustration 7.1](#)

### ***Schedule of prior year findings***

... report element -- [Section 7.1.2](#)

... when required -- [Illustration 7.1](#)

***Services*** – See [Care and services](#)

### ***Single Audit Act Amendments of 1996*** – ***pick up reference in discussion on OMB Circular A-133***

... on line -- <http://www.financenet.gov/exnetwork/www.sbaonline.sba.gov/saamend.html>

***State Single Audit Guidelines*** – ***definition, how to obtain*** -- [Section 1.1](#)

### ***Subrecipient***

... ***definition***

... distinguishing between a vendor and a subrecipient – [Section 10.3](#)

... federal audit requirements – [Section 3.1.2](#)

***Unit-time-unit price contract*** – [Section 2.1.6](#)

### ***Vendor***

... ***definition***

... distinguishing between a vendor and a subrecipient – [Section 10.3](#)

***Yellow Book*** – see [Government Auditing Standards](#)

### ***Waiver of audit***

... appropriate when – [Section 3.1.6](#)

... procedures – [Section 3.2](#)

OMB Circulars are available from the Office of Administration, Publications Office, room 2200, New Executive Office Building, Washington, DC 20503